

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood.      DOCKET NO. 090381-SU  
ORDER NO. PSC-10-0407-PAA-SU  
ISSUED: June 21, 2010

The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman  
LISA POLAK EDGAR  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING AN INCREASE IN WASTEWATER RATES  
AND ORDER REQUIRING  
FOUR YEAR RATE REDUCTION AND  
PROOF OF ADJUSTMENT OF BOOKS AND RECORDS

BY THE COMMISSION:

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

BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities, Inc. of Longwood
090392-WS	Utilities, Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities, Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090381-SU. Utilities, Inc. of Longwood (Longwood or Utility) is a Class B utility providing wastewater service to approximately 1,560

DOCUMENT NUMBER-DATE  
05136 JUN 21 09  
FPSC-COMMISSION OFFICE

customers in Seminole County. Water service is provided by the City of Longwood. In 1996, we approved the transfer from Longwood Utilities, Inc. to Longwood, as well as established rate base as of July 31, 1995.<sup>1</sup> The Utility is a wholly-owned subsidiary of UI. Longwood has never had a rate case.

On September 29, 2009, Longwood filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 13, 2009, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2008.

By Order No. PSC-09-0833-PCO-SU, Longwood was granted an interim rate increase designed to generate annual wastewater revenues of \$851,489.<sup>2</sup> This represents a revenue increase on an annual basis of \$109,159 (14.70 percent). The Utility requested final rates designed to generate annual wastewater revenues of \$943,939. This represents a revenue increase of \$199,144 (26.74 percent).

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. By Order No. PSC-10-0280-PCO-SU, issued May 6, 2010, the Commission acknowledged OPC's intervention in the instant docket.<sup>3</sup>

By letter dated April 13, 2010, the Utility waived the statutory 5-month deadline for this case through June 1, 2010. This Order addresses Longwood's requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

### QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C, we determine the overall quality of service provided by a utility by evaluating three separate components of wastewater operations. These components include the quality of the utility's product, the operational condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

#### Quality of the Utility's Product and Operational Condition of Plant and Facilities

The Utility only provides wastewater service. The homes in the service area were built from the mid-1970s to the mid-1980s, depending upon the development of each of the subdivisions. The Utility's wastewater plant was inspected by the DEP in 2008 and a few issues

---

<sup>1</sup> See Order No. PSC-96-0448-FOF-SU, issued March 29, 1996, in Docket No. 950959-SU, In re: Application for transfer of facilities and Certificate No. 232-S in Seminole County from Longwood Utilities, Inc. to Utilities, Inc. of Longwood.

<sup>2</sup> See Order No. PSC-09-0833-PCO-SU, issued December 21, 2009.

<sup>3</sup> See Order No. PSC-10-0280-PCO-SU, issued May 6, 2010.

needing attention concerning reporting requirements were promptly corrected. Another inspection was conducted in April 2010 and no significant compliance issues were noted.

The Utility experienced increased flows to the wastewater plant in August, September, and October 2008 due to excessive rainfall from Tropical Storm Fay. Investigation showed a lift station pumping excessive amounts of water. Two manholes and related sections of collection line collapsed in the Longwood Groves subdivision, and repairs were made to restore the integrity of the collection system. The Utility performed an Infiltration and Inflow (I&I) Study and the system was determined to be in better shape than expected.

Repairs are in progress at the lift station at Township Plaza. These repairs involve reconnecting a sewer service to the station as well as realignment of a downstream gravity collection main. Costs are estimated at \$70,000 for these repairs.

#### The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held in Altamonte Springs on February 17, 2010. No customers attended this meeting.

There are no outstanding complaints from the Utility's customers on the Commission's Consumer Activity Tracking System. A customer contacted the Commission in February 2010, suggesting that a metered rate based upon water consumption is preferred over the current and proposed flat rate. Another complaint was made with the Commission in 2008 concerning the owner of a rental property who was being billed for service. The Utility provided a resolution to the complaint. The Utility provided a list of complaints and resolutions to those complaints in its filing. Those complaints included odor coming from the wastewater treatment plant, a clogged sewer line, a malfunctioning lift station alarm, and yard restoration needed after a truck damaged lawn near a lift station. A review of the complaints shows that all have been resolved and accordingly, we find that the Utility's attempts to address customer concerns are satisfactory.

#### Summary

Based on all of the above, we find that the quality of the Utility's product, the operational condition of the plant, and the Utility's attempt to address customer concerns are satisfactory. Therefore, the overall quality of service is satisfactory.

#### RATE BASE

In its response to our audit report, Longwood agreed to the audit findings and audit adjustment amounts listed below. We find that the following adjustments to rate base and net operating income are appropriate and shall be approved.

<b>Audit Adjustments to Which Longwood Agrees</b>							
<u>Audit Finding</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>Accum. Amort. of CIAC</u>	<u>Operating Revenues</u>	<u>O&amp;M Expense</u>	<u>Depr. Expense</u>	<u>Taxes Other Than Income (TOTI)</u>
Finding No. 1 - Acquisition Adj. Correcting Entries		(\$46,464)				\$3,319	
Finding No. 3 - Plant Sample	(\$49,698)	16,007				(2,236)	
Finding No. 4 - Plant Retirements	(25,505)	31,238				(8,382)	
Finding No. 5 - Allowance for Funds Used During Construction	(7,282)	3,805				(371)	
Finding No. 8 - Accum. Amort. of CIAC			\$466,018				
Finding No. 9 - Revenue Adjustment				(\$16,459)			
Finding No. 11 - Employee Not Replaced					(\$474)		(\$33)
Finding No. 14 - Def. Main. Exp					(2,128)		
Finding No. 16 - O&M Sample					(3,789)		
<b>Total Adjustments</b>	<b>(\$82,485)</b>	<b>\$4,586</b>	<b>\$466,018</b>	<b>(\$16,459)</b>	<b>(\$6,391)</b>	<b>(\$7,670)</b>	<b>(\$33)</b>



Contested Audit Adjustments

In its MFRs, the Utility reflected test year plant of \$4,066,168. As discussed above, we reduced plant by \$82,485. In Audit Finding 6, we noted that the new accounting system implemented by Longwood's parent automatically allocates costs each month using the monthly ERC for each region. UI sold off some of their systems in 2009 and this changed its (ERC) calculations. The Utility personnel attempted to make a pro forma adjustment to the 2008 ledger to reflect this change. But in doing so, their calculation was only for plant additions and not for its accumulated depreciation balance. This caused an overstatement of allocated net plant to the Utility.

Longwood agreed with the audit finding that an error was made, but did not agree with our audit calculation. In its response to the audit, the Utility provided its calculation of the correction but we were unable to reconcile their numbers. In addition, in its response to our data request dated January 26, 2010, Longwood provided another calculation that did not match its initial audit response. It is the Utility's burden to justify its requested costs.<sup>4</sup> Due to the discrepancies in the Utility's responses, we agree with the auditors' adjustments reflected in Audit Finding No. 6. Based on the above, plant should be reduced by \$105,408. In addition, a corresponding adjustment should be made to decrease accumulated depreciation by \$30,572.

Adjustments to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)

The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and, financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December of 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs at September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, we approved recovery of the cost of the Phoenix Project in seven UI rate cases.<sup>5</sup> The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before us, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Longwood divided its ERCs by UI's total ERCs resulting in an allocation percentage of 7.54. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of \$21,364,569, Longwood calculated its allocated share to be 0.62 percent, or \$132,848.

As discussed above, we agreed with the adjustments recommended by the auditors in Audit Finding No. 6, to apply a more current ERC count provided by the Utility which recognized the divestitures of certain UI systems in 2009.

---

<sup>4</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>5</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

### Divestiture of UI Subsidiaries

As discussed above, we used a more recent ERC count provided by Longwood which recognized the divestitures of certain UI subsidiaries in 2009. According to Longwood's March 22, 2010, response to our second data request, UI recently divested several Florida subsidiaries including, Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010, between our staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana<sup>6</sup> that was not included in the ERC count previously provided to the auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of the cost of the Phoenix Project.

We agree that allocating costs on ERCs is an appropriate methodology to spread the cost of Project Phoenix. However, we do not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.<sup>7</sup> Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.<sup>8</sup> We believe the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Thus, we find the divested subsidiaries allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

According to Audit Finding No. 5, our auditors determined that the correct ledger balance of the software is \$21,617,487, not the \$21,364,569 Longwood used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, we determine the actual amount paid of \$21,617,487 for the Phoenix Project shall be reduced by \$1,724,166, resulting in a remaining balance of \$19,893,321. Based on the unrecovered cost of the Phoenix Project and the ECRs adjusted for divestiture, we find that the appropriate amount of Longwood's allocated share of the Phoenix Project is \$134,421. As such, we find that plant shall be reduced by \$9,570.

### Amortization Period

In previous UI cases, we approved a 6-year amortization period.<sup>9</sup> In subsequent UI cases,<sup>10</sup> we found that an 8-year amortization period was more appropriate for a software project

---

<sup>6</sup> This wastewater system represented appropriately 950 ERCs.

<sup>7</sup> The sale price of Wedgefield Utilities, Inc. in April of 2009 was \$7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or \$885,852 greater than rate base.

<sup>8</sup> The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was \$7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or \$1,897,837 greater than their collective rate bases.

<sup>9</sup> See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

<sup>10</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

of this magnitude. For several reasons, we now find that the amortization period for the Phoenix Project shall be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, we believe that the software will be used at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,<sup>11</sup> UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, we find that 10 years is a more reasonable amortization period than the 8-year amortization period currently approved. Thus, we find that accumulated depreciation and depreciation expense shall be reduced by \$4,278.

### Summary

In summary, we find that plant shall be reduced by \$9,570. In addition, the balances of accumulated depreciation and depreciation expense both shall be reduced by \$4,278.

### Pro Forma Plant and Expense Additions

In its MFRs, Longwood reflected pro forma additions of \$370,000. The following table provides a breakdown of each pro form plant addition.

<u>Wastewater Pro Forma Additions</u>	<u>Amount</u>
Manhole Rehabilitation at Township Plaza	\$70,000
I&I Investigation Longwood Groves Subdivision	100,000
Correct Deficiencies Identified in Longwood Groves I&I Study	<u>200,000</u>
Total Wastewater Additions	<u>\$370,000</u>

We have reviewed the supporting documentation and the prudence of these pro forma plant additions and we find that several adjustments are necessary as discussed below.

First, we note that, by letter dated August 14, 2009, the Chairman's Office approved Longwood's requested test year for purposes of filing the Utility's MFRs. In that letter, Longwood was put on notice that we may disregard any information not filed with its original application because of the time limitation contained in Section 367.081, F.S., and the lengthy auditing and investigation required. Second, in Audit Finding 2, our auditors stated that the Utility supplied proposals for the Manhole Rehabilitation at Township Plaza dating as far back as December 20, 2006. Specifically, these proposals supplied to the auditors were for professional engineering services and construction but no contracts or actual invoices were provided by Longwood.

In its response to our data request dated January 26, 2010, the Utility provided the same two quotes that it gave our auditors for the Manhole Rehabilitation at Township Plaza project. We find that the two quotes are not sufficient support documentation to include in rate base because they are approximately 3 years old. If the Utility intended to undertake this project, it

---

<sup>11</sup> Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

should have included a more current quote or provided an explanation as to why the 2006 quote was still valid.

In its response to our data request dated January 26, 2010, Longwood also provided an unexecuted contract dated November 19, 2009, between Altair Environmental Group (Altair) and the Utility's sister company, Utilities, Inc. of Florida (UIF), for \$17,658 related to the I&I Investigation Longwood Groves Subdivision project. By e-mail dated April 20, 2010, the Utility provided an executed contract between Altair and UIF for the I&I Investigation Longwood Groves Subdivision project. The contract was signed by UIF on December 15, 2009.

To date, with the exception of the executed contract between Altair and UIF referenced above, Longwood has not provided us with any support documentation for its other requested pro forma plant projects. The Utility has the burden of proving that its costs are reasonable.<sup>12</sup> Based on the above, we find that plant should be decreased by \$352,342. Accordingly, corresponding adjustments shall be made to decrease accumulated depreciation and depreciation expense both by \$7,822. Finally, a corresponding adjustment shall be made to decrease property taxes by \$1,560.

#### Used and Useful

The wastewater treatment plant is a 500,000 gallons per day (gpd) facility, limited to 470,000 gpd because of the reuse system on the plant site. Average annual daily flows during the test year were 410,870 gpd, and average 209 gpd per connection.

The service area is essentially built out, serving sixteen contiguous subdivisions. Customer growth is negative and the number of active single family customers was less in 2008 than it was in 2004. Because of the service area being built out and the negative customer growth, we find that the wastewater plant and collection system be considered 100 percent used and useful.

#### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. We have approved adjustments to Longwood's O&M expenses. As a result, we find that working capital of \$68,048 be approved. This reflects a decrease of \$31,932 to the Utility's requested working capital allowance of \$99,980.

#### Appropriate Rate Base for the Test Year Ending December 31, 2008

Consistent with other approved adjustments, the appropriate rate base is \$1,964,085. The schedule for rate base is attached as Schedule No. 1-A. The adjustments to rate base are shown on Schedule No. 1-B.

---

<sup>12</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).

## COST OF CAPITAL

### Return on Equity

The return on equity (ROE) included in the Utility's filing is 11.13 percent. Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS and an equity ratio of 42.64 percent, the appropriate ROE is 11.13 percent.<sup>13</sup> We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

### Weighted Average Cost of Capital

In its filings, the Utility requested an overall cost of capital of 7.09 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, we find that a weighted average cost of capital of 7.04 percent is appropriate. This represents a 5 basis points reduction from Longwood's requested an overall cost of capital of 7.09 percent. Schedule No. 2 details the overall cost of capital.

## NET OPERATING INCOME

### Annualized Revenue Adjustments

As discussed above, Longwood's test year revenues were reduced by \$16,459.<sup>14</sup> In its filing, the Utility included an annualized revenue adjustment of \$9,695. Using test year billing units, we calculated an annualized revenue adjustment of \$114,496. Thus, we find it appropriate that test years revenues be increased by \$104,801.

### Adjustments to O&M Expenses

In its MFRs, the Utility reflected adjusted test year O&M expenses of \$594,163. As discussed above, we reduced O&M expenses by \$6,391. Based on a contested audit finding and the Utility's response to data requests, we find that further adjustments shall be made to the test year O&M expenses as discussed below.

### Headquarter Samples

Our audit staff sampled entries for O&M expenses taken from UI's headquarters in Northbrook, Illinois to trace to support documentation. Audit staff identified \$4,371 in entries that should have been capitalized, were non-reoccurring in nature, or did not have any support documentation provided. Longwood agreed with the audit that some entries should have been capitalized and others should have been removed. The Utility did provide support documentation for some of the entries. Therefore, we find that O&M expenses shall be reduced

---

<sup>13</sup> See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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.

<sup>14</sup> This uncontested audit adjustment was reflected in the test year units used in determining the appropriate annualized revenue adjustment.

by \$4,371. Accordingly, a corresponding adjustment shall be made to increase plant by \$82. Finally, accumulated depreciation and depreciation expense both shall be increased by \$4.

#### Deferred Maintenance

In its filing, Longwood reflected a deferred maintenance project related to the painting of its Shadow Hills wastewater treatment plant. Using a 3-year amortization period, the Utility amortized the total cost of \$24,150 which yielded an amortization amount of \$8,050. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified. The Utility has not provided any justification why its wastewater treatment plant painting should be amortized over 3 years instead of 5 years. It is the Utility's burden to prove that its requested costs are reasonable.<sup>15</sup> As such, we find that O&M expenses shall be decreased by \$3,220.

#### Summary

In summary, we find that O&M expenses shall be decreased by \$7,591 (\$4,371+\$3,220). Accordingly, a corresponding adjustment shall be made to increase plant by \$82. Finally, accumulated depreciation and depreciation expense both shall be increased by \$4.

#### Adjustments to Salaries, Wage Expense, and Pensions

On MFR Schedule B-6, the Utility recorded salaries and wages expense and pensions and benefits expense of \$128,971 and \$27,223, respectively. The increase in salaries and wages expense represents an increase of 93.38 percent since 2003. The increase in pensions and benefits expense represents an increase of 117.23 percent over the level in 2003.

Our review of O&M expenses included a comparison of reported expenses with those expenses the Utility experienced 5 years before the test year in this instant case. Schedule B-8 requires the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). Longwood calculated a benchmark of 24.70 percent. For salaries and wages and pensions and benefits, the Utility stated that the reason for the increase was due to the number of employees and available positions that have increased over the past three years, as well as the associated cost of living increases with those employees. In addition, the number of affiliate companies has decreased, thus increasing the allocation percentage to Longwood.

In our data request dated January 26, 2010, the Utility was asked to explain why its salaries and wages expense was significantly greater than its reported salaries in 2003. In its response, Longwood explained that the increases are attributable to several factors. First, the Utility gives a standard cost of living increase to its employees on an annual basis. Second, the salary adjustment in 2008 has been annualized to account for a full year of salaries for all allocated personnel. Third, between 2003 and 2007, six new positions were created within the Utility, including a regional vice president serving the Florida and South Regions, a business

---

<sup>15</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).



manager serving the same area, a cross connection specialist, an operator, and a part-time operator, all of whom are allocated to various Florida companies. These new employees alone account for much of the difference in this expense between 2003 and 2008. In response to our auditors' data request, Longwood provided an updated salary request that reflected annualized adjustments of 2.25 percent and 3.5 percent increases in September of 2009 and April 2010, respectively. As discussed above, UI has divested numerous subsidiaries. As a result, we would expect the number of allocated employees to decrease, not increase, as stated above by the Utility.

In its response dated April 9, 2010, to our data request, Longwood stated that a major cost saving measure since 2003 was the closure of three call centers in various states in the first quarter of 2010. These closures were part of UI's customer service optimization program. The personnel from those closed call centers were terminated. All customer service is now being maintained by the remaining call centers in Nevada, North Carolina, and Florida. The costs for these remaining call centers are now being allocated based on total parent company ERCs. Because the costs for the Florida call center were previously being allocated by only ERCs from Florida and Louisiana, the effect of the above-mentioned customer service optimization program should have resulted in cost savings to all of UI's Florida subsidiaries. However, to date, Longwood has failed to provide us with any adjustments to salaries and wages related to these cost savings.

Based on the above, we find that the requested increase in salaries and wages expense is excessive. The Utility has the burden of proving that its costs are reasonable.<sup>16</sup> We believe that the Utility has not met its burden of proof that the proposed increase in salaries and wages expense from 2003 to 2008 are reasonable. Further, we believe that Longwood has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since 2003.

We have used the benchmark analysis found on Schedule B-8 of the MFRs to support a reduction to salaries and wages expense. We have utilized the benchmark analysis found on MFR Schedule B-8 in previous rate cases.<sup>17</sup> Accordingly, we find that salaries and wages expense shall be decreased by \$14,706. In addition, pensions and benefits expense shall be reduced by \$3,628,<sup>18</sup> and payroll taxes shall be reduced by \$1,125.

#### Allocated Relocation Expense

UI's relocation expenses for the 2008 test year were \$156,647, a 59 percent increase from 2007. Longwood's allocated portion of this expense was \$971. The relocation expenses for 2008 was for the relocation of one headquarter employee. UI's relocation expenses have varied

---

<sup>16</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).

<sup>17</sup> See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.

<sup>18</sup> We note that it utilized the Utility's test year ratio of pensions & benefits to salaries in order to determine the corresponding adjustment for pensions & benefits.

significantly from year to year. In 2004 and 2005, UI did not have any relocation expenses. UI's relocation expense was \$16,145 for 2006 and \$98,577 for 2007. The year over year increase from 2006 to 2007 represented a 511 percent increase.

Recognizing that relocation expenses have varied significantly from year to year, it has been our practice to base this expense on a 4-year average of actual experience rather than the specific expense in any given year. To be consistent with this practice,<sup>19</sup> we find that relocation expenses shall be based on UI's 4-year average. Accordingly, we find that relocation expenses shall be reduced by \$550.

#### Transportation Expenses

On MFR Schedule B-6, Longwood recorded transportation expense of \$11,326 in the test year. According to MFR Schedule B-8, the Utility made a pro forma adjustment to increase transportation expense by \$1,394 based on its analysis of the cost per vehicle of all direct and allocated employees of Longwood. We note that of the \$1,394 pro forma amount, 73 percent or \$1,019 relates to fuel purchases. In its March 10, 2010, data request, we asked the Utility to provide the amount of its transportation expense that related to fuel purchases and the total gallons of fuel purchased. In its response, the Utility stated that fuel accounted for \$8,413 of the \$11,326 total expense. The Utility further stated that it could not determine the total gallons of fuel purchased for Longwood because its parent company (Utilities, Inc.) recently switched vendors and the information relating to purchased gallons from the past was no longer available.

By e-mail dated March 31, 2010, from a representative of UI to staff, UI asserted that the total gallons for Longwood were 27,813. Based on the total dollar of \$8,413 for fuel, the cost per gallon would be approximately \$0.30 per gallon.

In its April 9, 2010, response to our data request, Longwood proposed that the appropriate fuel costs for the Utility was \$6,371. In support of its position, Longwood provided workpapers for its calculations. Specifically, the Utility multiplied the gallons per vehicle by the nominal price per gallon of \$3.27 in 2008, then allocated the costs based on 2008 year-end ERC percentages for allocated employees and assigned the full amount for direct employees of the Utility. However, we believe the gallons reported on the Longwood's workpapers are unreliable. First, we applied the ERC percentages for all allocated employees to determine the Utility's gallons associated with those employees and added all the gallons associated with the direct employees of Longwood. Using this method, we calculated total gallons attributable to the Utility of 1,985. Applying the initial dollar of \$8,413 yields an approximate cost of \$4.24 per gallon.

---

<sup>19</sup> See Order Nos. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company; and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.



It is the Utility's burden to prove that its costs are reasonable.<sup>20</sup> Based on the above, we believe that the Utility's gallonage data is unreliable in determining the appropriate level of fuel costs for prospective ratemaking purposes.

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, retail gasoline prices are expected to be an annual average of \$2.84 for 2010 per gallon while the annual average for 2008 was \$3.26 per gallon. We have utilized the United States Energy Information Administration Short-Term Energy Outlook Report in a recent formal file and suspend rate case to determine the appropriate level of fuel cost.<sup>21</sup> The difference between the annual average price in 2008 and 2010 is \$0.42 or 12.88 percent. In the absence of reliable gallonage data, we find that a reasonable method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 12.88 percent. Therefore, we find that the Utility's transportation expense should be decreased by \$1,215 [(\$8,413+1,019)x .1288].

Rate Case Expense

In its MFRs, the Utility included an estimate of \$176,518 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On April 9, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$179,935.

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Revised</u> <u>Total</u>
Legal Fees	\$48,800	\$25,857	\$27,133	\$52,990
Accounting Consultant Fees	37,400	30,013	7,700	37,713
Engineering Consultant Fees	5,370	2,900	2,320	5,220
WSC In-house Fees	62,311	22,130	36,791	58,921
Filing Fee	4,000	4,000	0	4,000
Travel- WSC	3,200	0	3,200	3,200
Temp Employee Fees-WSC	0	2,454	0	2,454
Miscellaneous	12,000	0	12,000	12,000
Notices	<u>3,437</u>	<u>0</u>	<u>3,437</u>	<u>3,437</u>
Total Rate Case Expense	<u>\$176,518</u>	<u>\$87,354</u>	<u>\$92,581</u>	<u>\$179,935</u>

<sup>20</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>21</sup> See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we believe that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of invoices of the Utility's consultants, a combined amount of \$1,021 was billed for correcting MFR deficiencies and revising the Utility's filing. Specifically, \$908 related to legal fees and \$113 related to accounting fees. Accordingly, we find that \$1,021 shall be removed as duplicative and unreasonable rate case expense. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>22</sup>

The second adjustment relates to the filing fee for this case. In its filing, Longwood reflected a filing fee of \$4,000, but the actual filing fee required was \$2,000. Based on our review, the Utility included \$4,000 in a filing fee line item, as well as the actual \$2,000 in legal fees. As such, this created a triple counting of the actual filing fee. Thus, legal fees and the filing fee both shall be reduced by \$2,000.

The third adjustment relates to duplicative legal fees and WSC In-house fees. As discussed above, in its first data request dated January 26, 2010, we requested a copy of all support documentation, including contracts or invoices, for the Utility's I&I Investigation of the Longwood Groves Subdivision. In its response dated February 16, 2010, Longwood provided an unexecuted contract dated November 19, 2009, between Altair Environmental Group (Altair) and the Utility's sister company Utilities, Inc. of Florida (UIF), for \$17,658 relating to the I&I Investigation of the Longwood Groves Subdivision. In a conference call with the Utility, OPC, and our staff on April 16, 2010, we reiterated our request for a copy of the executed contract between Altair and UIF. By e-mail dated April 20, 2010, the Utility provided an executed contract between Altair and UIF for the I&I Investigation Longwood Groves Subdivision project signed by UIF on December 15, 2009.

Because of the duplicative requests before the Utility finally provided the executed contract, we believe that there was unwarranted and duplicative rate case expense incurred to respond to our data requests in this matter. Although the estimated breakdown for legal fees and WSC in-house fees do not isolate the duplicative time spent, we find one hour for each Utility attorney and WSC employee that participated in the April 16, 2010, conference call shall be disallowed. However, we find that this disallowance should be split between two sister companies of the Utility because we also requested supporting documentation related to these companies as well. Thus, we find that legal fees and WSC In-house fees shall be reduced by \$212 and \$42, respectively.

---

<sup>22</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

The fourth adjustment relates to duplicative actual legal fees and unsupported estimated legal fees. Longwood requested total estimated legal fees of \$52,990. However, the Utility only provided a detail breakdown for \$44,578. As such, we find that legal fees shall be reduced by \$8,412 (\$52,990-\$44,578).

The fifth adjustment relates to the remaining estimated legal fees. In its breakdown of estimated legal fees, the Utility applied an hourly rate of \$330 for all estimated legal fees. The law firm representing Longwood has a partner billing at a rate of \$330 per hour and an associate lawyer billing at a rate of \$305 per hour. In its breakdown for estimated legal fees, the Utility stated that, with the exception of the Agenda Conference hours, the associate lawyer would be handling the remaining estimated legal fees which represents a total of 46.9 hours. As such, we find that legal fees shall be reduced by \$1,173 [(\$330-\$305)x46.9].

The sixth adjustment relates to the Utility's \$37,713 of accounting consultant fees. That amount includes \$7,700 for an estimate to complete this case. The only support provided for the work to be performed was "Assist w/ MFRs, data requests, and audit facilitation." We note that there would be no work remaining for MFRs and audit facilitation. Also, we believe that any remaining data requests would be more appropriately addressed by WSC in-house employees. Accordingly, we find that \$7,700 be removed as unreasonable and unsupported rate case expense.

The seventh adjustment relates to the Utility's actual engineering consulting fees and its estimated engineering consultant fees to complete the rate case. Longwood requested total engineering fees of \$5,370 which was comprised of \$2,900 in actual costs and \$2,320 in estimated fees. Based on invoices provided, the actual costs were \$2,465, instead of \$2,900. This represents a difference of \$435. Also, the estimated remaining hours to complete the PAA case for engineering totaled 16 hours or \$2,320. The only support provided for the work to be performed was "U&U Analysis, Assist w/ MFRs, data requests, and audit facilitation." We note that there would be no work remaining for U&U Analysis, MFRs, and audit facilitation. Also, we believe that any remaining data requests would be more appropriately addressed by WSC in-house employees. Accordingly, we find that \$2,755 (\$435+\$2,320) shall be removed as unreasonable and unsupported rate case expense.

The eighth adjustment relates to WSC in-house employee fees. In its rate case expense update, the Utility stated that the WSC employees' estimated hours of 586.75 or \$33,401 related to assistance with MFRs, data requests, audit facilitation, billing analysis, implementation of rates, and customer notice mailings. We have concerns regarding these estimated hours. First, as stated earlier, there should be no estimated hours related to the MFRs or the audit in this case because the Utility has already completed the MFRs and has responded to the audit requests and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.<sup>23</sup> We believe that a reasonable method to

---

<sup>23</sup> See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger

estimate WSC employee hours to complete the rate case is to utilize the actual average monthly hours of WSC employees. Using this method, we calculated an estimate for WSC employees to complete the case of 308.07 hours, or \$11,963 which represents a reduction of 278.68 hours. Thus, we find that rate case expense shall be decreased by \$21,437 (\$33,401-\$11,963).

The ninth adjustment addresses WSC travel expenses. In its MFRs, Longwood estimated \$3,200 for travel. However, there was no support provided for the travel expenses. Based on several previous UI rates cases, it is our experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore, we find that rate case expense shall be decreased by \$3,200.

The tenth adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. UI has requested and received authorization from us to keep its records outside the state in Illinois. This authorization was made pursuant to Rule 25-30.110(1)(c), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In a 1993 rate case for Mid-County Service, Inc. (another UI subsidiary),<sup>24</sup> we found the following:

The Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.

We believe that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Thereafter, these documents are submitted to this Commission. We not believe that ratepayers should bear the related costs of having utility records located out of state. This is a decision of the shareholders of the Utility, and, therefore, they shall bear the related costs. Therefore, we find that rate case expense shall be decreased by \$12,000.

It is the Utility's burden to justify its requested costs.<sup>25</sup> Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse

---

Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

<sup>24</sup> See Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

<sup>25</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.<sup>26</sup>

Summary

In summary, we find that Longwood's revised rate case expense shall be decreased by \$22,353 for MFR deficiencies and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$116,025. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual &amp; Estimated</u>	<u>Commission Adjustments</u>	<u>Total</u>
Legal Fees	\$48,800	\$52,990	(\$12,965)	\$40,025
Accounting Consultant Fees	37,400	37,713	(7,813)	29,900
Engineering Consultant Fees	5,370	5,220	(2,755)	2,465
WSC in-house Fees	62,311	58,921	(23,176)	35,745
Filing Fee	4,000	4,000	(2,000)	2,000
Travel- WSC	3,200	3,200	(3,200)	0
Temp Employee Fees-WSC	0	2,454	0	2,454
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>3,437</u>	<u>3,437</u>	<u>0</u>	<u>3,437</u>
<b>Total Rate Case Expense</b>	<b><u>\$176,518</u></b>	<b><u>\$179,935</u></b>	<b><u>(\$63,909)</u></b>	<b><u>\$116,025</u></b>
<b>Annual Amortization</b>	<b><u>\$44,129</u></b>	<b><u>\$44,984</u></b>	<b><u>(\$15,977)</u></b>	<b><u>\$29,006</u></b>

In its MFRs, Longwood requested total rate case expense of \$176,518, which amortized over four years would be \$44,129. Based on the adjustments above, annual rate case expense shall be decreased by \$60,493, or \$15,123 per year.

The total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Longwood and the adjustments discussed above, we find that annual rate case expense of \$29,006 is appropriate.

<sup>26</sup> See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

Bad Debt Expense

The Utility recorded bad debt expense of \$6,235 for 2008. Consistent with our practice, bad debt expense shall be \$5,657 based on a 3-year average. We have previously approved the application of a 3-year average to determine the appropriate level of bad debt expense. We have set bad debt expense using the 3-year average in three electric cases,<sup>27</sup> two gas cases,<sup>28</sup> and two water and wastewater cases.<sup>29</sup> We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, Longwood is entitled to bad debt expense of \$5,657 which we believe is representative of Longwood's bad debt expense. Accordingly, we find that Longwood's bad debt expense of \$6,235 shall be reduced by \$578.

Operating Income Before Any Revenue Increase

This is primarily a "fall-out" issue subject to the resolution of other issues related to revenues, operating expenses, and rate base. As shown on Schedule No. 3-A, after applying our adjustments, the Utility's net operating income is \$106,467. Our adjustments to operating income are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

The following revenue requirement shall be approved:

	<u>Test</u>		<u>Revenue</u>	
	<u>Year Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Wastewater	<u>\$833,136</u>	<u>\$53,360</u>	<u>\$886,496</u>	<u>6.40%</u>

<sup>27</sup> See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In Re: Petition for a rate increase by Florida Power Corporation, at p. 48.

<sup>28</sup> See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by PEOPLES GAS SYSTEM, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

<sup>29</sup> See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42; and See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., at pp. 92-96.



The computation of the revenue requirement is shown on Schedule No. 3-A. This computation results in a revenue requirement of \$886,496, which represents an increase of \$53,360 or 6.40 percent.

### RATES AND CHARGES

#### Appropriate Rates

The approved revenue requirement is \$886,496. After excluding miscellaneous service and other revenues of \$26,370, the revenue to be recovered through rates is \$860,600. Longwood's current wastewater rate structure is a flat rate for residential customers and a base facility charge and gallonage charge for general service customers.

Because the revenue requirement increase is very small, we find that an across-the-board increase shall be applied to the Utility service rates prior to filing. To determine the appropriate percentage increase to apply to the service rates prior to filing, miscellaneous service and other revenues shall be removed from the test year revenues.

	<u>Wastewater</u>
1 Total Test Year Revenues	<u>\$833,136</u>
2 Less: Miscellaneous Revenues	<u>\$26,370</u>
3 Test Year Revenues from Service Rates	<u>\$806,766</u>
4 Revenue Increase	<u>\$53,360</u>
5 % Service Rate Increase (Line 4/Line3)	<u>6.61%</u>

As such, the across-the-board increase of 6.61 percent shall be applied to the service rates prior to filing. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's prior to filing and requested rates, the approved interim rates, and our PAA rates are shown on Schedule No. 4.

#### Approved Miscellaneous Service Charges

The miscellaneous service charges were approved for Longwood on July 15, 2001, and have not changed since that date. The Utility believes these charges should be updated to reflect current costs. We agree with this request. Longwood provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

<u>During Business Hours</u>		<u>After Hours</u>	
<u>Item:</u>	<u>Cost:</u>	<u>Item:</u>	<u>Cost:</u>
Labor (\$31.50/hr. X 0.5 hours)	\$15.63	Labor (\$46.88/hr. X 0.75 hours) <sup>30</sup>	\$35.16
Transportation	<u>5.00</u>	Transportation	<u>6.00</u>
Total	<u>\$20.63</u>	Total	<u>\$41.16</u>

We find that Longwood shall be allowed to increase its wastewater miscellaneous service charges from \$15 to \$21 for work performed during normal working hours and from \$15 to \$42 for after hours work. We further find that these same charges shall apply to the Utility's Premises Visit Charge. The approved wastewater charges are shown below.

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Commission Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$42
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	\$21	\$42
Premises Visit	N/A	N/A	\$21	\$42

Longwood's miscellaneous service charges have not been updated in approximately 9 years, and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 35.25 percent in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. In Order No. PSC-96-1320-FOF-WS, involving Southern States Utilities Inc., we expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed our staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."<sup>31</sup> Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. We applied the approved price indices from 2001 through 2010 to Longwood's \$15 miscellaneous service charge and the result was a charge of \$20.29. Therefore, we find that a \$21 charge is reasonable and is cost based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premise for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue

<sup>30</sup> Represents time-and-a-half wage and the additional time it takes an employee to get to the customer's property after hours.

<sup>31</sup> Issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.



service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. We find that the “Premises Visit In Lieu of Disconnection” charge shall be replaced with what will be called “Premises Visit” charge. In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection charge, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer’s request for complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, we approved a Premises Visit charge to be levied when a service representative visits a premises at the customer’s request for a complaint and the problem is found to be the customer’s responsibility.<sup>32</sup> Based on the foregoing, we find that the Premises Visit (in lieu of disconnection) charge shall be eliminated and the Premises Visit charge shall be approved.

### Summary

In summary, we find that the Utility’s proposed miscellaneous service charge of \$21 and after hours charge of \$42 shall be approved because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The Utility shall file a proposed customer notice to reflect our approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the Order is final, the Utility shall be required to provide notice of the tariff changes to all customers. Longwood shall provide proof the customers have received notice within ten days after the date the notice was sent.

### Appropriate Non-Sufficient Funds Fees

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by this Commission. We have authority to establish, increase, or change a rate or charge. Longwood has requested non-sufficient funds (NSF) fee in accordance with the Section 832.08(5), F.S.

We find that Longwood should be authorized to collect an NSF fee. We find that the NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), F.S., the following fees may be assessed:

- 1.) \$25, if the face value does not exceed \$50,
- 2.) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3.) \$40, if the face value exceeds \$300, or
- 4.) five percent of the face amount of the check, whichever is greater.

---

<sup>32</sup> Issued April 18, 2005, in Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

We find that Longwood's tariff for an NSF fee shall be revised to reflect the charges set by Sections 68.065(2) and 832.08(5), F.S.

Approval of an NSF fee is consistent with our prior decisions.<sup>33</sup> As such, we find that Longwood's proposed NSF fee shall be approved. This fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

#### OTHER ISSUES

##### Calculation of Interim Refund

By Order No. PSC-09-0833-PCO-SU, issued December 21, 2009, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$851,489, which represents an increase of \$109,159 or 14.70 percent.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2008. Longwood's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the \$851,489 revenue requirement granted in Order No. PSC-09-0833-PCO-SU is less than the revised revenue requirement for the interim collection period of \$853,594. As such, we find that no refund is required for wastewater revenues collected under interim rates. Further, upon issuance of the Consummating Order in this docket, the surety bond shall be released.

---

<sup>33</sup> See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

Four Year Rate Reduction

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. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for regulatory assessment fees (RAFs), which is \$30,639. The decreased revenue will result in the rate reduction reflected on Schedule No. 4.

The Utility shall be required to 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. Longwood shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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 the rates due to the amortized rate case expense.

Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with the our decision, Longwood shall provide proof, within 90 days of the final Order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities Inc. of Longwood's application for increased wastewater rates and charges is approved to the extent set forth in the body of this Order. Utilities Inc. of Longwood is hereby authorized to charge the new wastewater rates and service charges as set forth in the body of this Order. It is further

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

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

ORDERED that Utilities Inc. of Longwood shall file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. It is further

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

ORDERED that approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Utilities Inc. of Longwood shall be authorized to revise its miscellaneous service charges as set forth herein. It is further

ORDERED that Utilities Inc. of Longwood shall file a proposed customer notice to reflect the Commission-approved miscellaneous service charges. It is further

ORDERED that the approved miscellaneous service charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. It is further

ORDERED that within 10 days of the date the order is final, Utilities Inc. of Longwood shall provide notice of the tariff changes regarding its miscellaneous service charges to all customers. The utility shall provide proof the customers have received notice within 10 days after the date that the notice was sent. It is further

ORDERED that no refund of interim rates is required. It is further

ORDERED that the appropriate monthly wastewater rates are reflected on Schedule No. 4. The approved rates are designed to produce a revenue requirement of \$860,600 excluding miscellaneous service charges. Utilities Inc. of Longwood shall file 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for regulatory assessment fees, which is \$30,639. 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 the rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

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

ORDERED that the provisions of this Order, issued as proposed agency action, 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 timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order shall be issued and the corporate undertaking released. However, the docket shall remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by Commission staff.

By ORDER of the Florida Public Service Commission this 21st day of June, 2010.



---

ANN COLE  
Commission Clerk

( S E A L )

CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein, except for the four-year rate reduction and proof of adjustment of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 12, 2010. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Utilities, Inc. of Longwood Schedule of Wastewater Rate Base Test Year Ended 12/31/08				Schedule No. 1-A Docket No. 090381-SU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year
1 Plant in Service	\$3,634,524	\$431,644	\$4,066,168	(\$549,723)	\$3,516,445
2 Land and Land Rights	229,215	210	229,425	0	229,425
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,896,917)	385,077	(1,511,840)	47,254	(1,464,586)
5 CIAC	(1,661,914)	0	(1,661,914)	0	(1,661,914)
6 Amortization of CIAC	1,264,556	(453,906)	810,650	466,018	1,276,668
7 CWIP	218,314	(218,314)	0	0	0
8 Acquisition Adjustment	101,733	(101,733)	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>99,980</u>	<u>99,980</u>	<u>(31,932)</u>	<u>68,048</u>
10 <b>Rate Base</b>	<u>\$1,889,511</u>	<u>\$142,958</u>	<u>\$2,032,469</u>	<u>(\$68,384)</u>	<u>\$1,964,085</u>

<b>Utilities, Inc. of Longwood</b>		<b>Schedule No. 1-B</b>
<b>Adjustments to Rate Base</b>		<b>Docket No. 090381-SU</b>
<b>Test Year Ended 12/31/08</b>		
<b>Explanation</b>	<b>Wastewater</b>	
<u>Plant In Service</u>		
1 Comm. and Utility Agreed Upon Audit Adjustments.	(\$82,485)	
2 Contested Rate Base Audit Adjustments.	(105,408)	
3 To Reflect Phoenix Project Adjustment.	(9,570)	
4 To Reflect Pro Forma Adjustments.	(352,342)	
5 Contested NOI Audit Adjustments.	82	
Total	<u>(\$549,723)</u>	
<u>Accumulated Depreciation</u>		
1 Comm. and Utility Agreed Upon Audit Adjustments.	\$4,586	
2 Contested Rate Base Audit Adjustments.	30,572	
3 To Reflect Phoenix Project Adjustment.	4,278	
4 To Reflect Pro Forma Adjustments.	7,822	
5 Contested NOI Audit Adjustments.	(4)	
Total	<u>\$47,254</u>	
<u>Accumulated Amortization of CIAC</u>		
Comm. and Utility Agreed Upon Audit Adjustments.	<u>\$466,018</u>	
<u>Working Capital</u>		
To reflect the appropriate working capital allowance.	<u>(\$31,932)</u>	



Utilities, Inc. of Longwood Capital Structure-Simple Average Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090381-SU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,181,047)	\$818,953	40.29%	6.65%	2.68%	
2 Short-term Debt	32,637,500	0	32,637,500	(32,489,090)	148,410	7.30%	5.23%	0.38%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	158,054,717	0	158,054,717	(157,335,603)	719,114	35.38%	11.13%	3.94%	
5 Customer Deposits	29,428	0	29,428	0	29,428	1.45%	6.00%	0.09%	
6 Deferred Income Taxes	<u>316,564</u>	<u>0</u>	<u>316,564</u>	<u>0</u>	<u>316,564</u>	<u>15.58%</u>	0.00%	<u>0.00%</u>	
7 <b>Total Capital</b>	<u>\$371,038,209</u>	<u>\$0</u>	<u>\$371,038,209</u>	<u>(\$369,005,740)</u>	<u>\$2,032,469</u>	<u>100.00%</u>		<u>7.09%</u>	
<b>Per Staff</b>									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,214,289)	\$785,711	40.00%	6.65%	2.66%	
9 Short-term Debt	32,637,500	0	32,637,500	(32,495,035)	142,465	7.25%	5.23%	0.38%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	158,054,717	0	158,054,717	(157,364,799)	689,918	35.13%	11.13%	3.91%	
12 Customer Deposits	29,428	0	29,428	0	29,428	1.50%	6.00%	0.09%	
13 Deferred Income Taxes	<u>316,564</u>	<u>0</u>	<u>316,564</u>	<u>0</u>	<u>316,564</u>	<u>16.12%</u>	0.00%	<u>0.00%</u>	
14 <b>Total Capital</b>	<u>\$371,038,209</u>	<u>\$0</u>	<u>\$371,038,209</u>	<u>(\$369,074,124)</u>	<u>\$1,964,085</u>	<u>100.00%</u>		<u>7.04%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.13%</u>	<u>12.13%</u>		
OVERALL RATE OF RETURN						<u>6.69%</u>	<u>7.39%</u>		

Utilities, Inc. of Longwood Statement of Wastewater Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090381-SU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$770,736</u>	<u>\$173,203</u>	<u>\$943,939</u>	<u>(\$98,534)</u>	<u>\$845,405</u>	<u>\$41,091</u> <u>4.86%</u>	<u>\$886,496</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	<u>\$577,507</u>	<u>\$16,656</u>	<u>\$594,163</u>	<u>(\$49,782)</u>	<u>\$544,381</u>		<u>\$544,381</u>
3 Depreciation	<u>87,195</u>	<u>2,905</u>	<u>90,100</u>	<u>(19,766)</u>	<u>70,334</u>		<u>70,334</u>
4 Amortization	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 Taxes Other Than Income	<u>82,706</u>	<u>9,803</u>	<u>92,509</u>	<u>(7,152)</u>	<u>85,357</u>	<u>1,849</u>	<u>87,206</u>
6 Income Taxes	<u>(9,872)</u>	<u>32,937</u>	<u>23,065</u>	<u>8,494</u>	<u>31,559</u>	<u>14,767</u>	<u>46,326</u>
7 <b>Total Operating Expense</b>	<u>\$737,536</u>	<u>\$62,301</u>	<u>\$799,837</u>	<u>(\$68,206)</u>	<u>\$731,631</u>	<u>\$16,616</u>	<u>\$748,246</u>
8 <b>Operating Income</b>	<u>\$33,200</u>	<u>\$110,902</u>	<u>\$144,102</u>	<u>(\$30,327)</u>	<u>\$113,775</u>	<u>\$24,475</u>	<u>\$138,250</u>
9 <b>Rate Base</b>	<u>\$1,889,511</u>		<u>\$2,032,469</u>		<u>\$1,964,085</u>		<u>\$1,964,085</u>
10 <b>Rate of Return</b>	<u>1.76%</u>		<u>7.09%</u>		<u>5.79%</u>		<u>7.04%</u>

<b>Utilities, Inc. of Longwood</b>		<b>Schedule 3-B</b>
<b>Adjustment to Operating Income</b>		<b>Docket No. 090381-SU</b>
<b>Test Year Ended 12/31/08</b>		
<b>Explanation</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>		
1 Remove requested final revenue increase.	(\$199,144)	
2 Comm. and Utility Agreed Upon Audit Adjustments.	(16,459)	
3 Reflect Appropriate Annualized Revenues.	<u>117,070</u>	
Total	<u>(\$98,534)</u>	
<u>Operation and Maintenance Expense</u>		
1 Comm. and Utility Agreed Upon Audit Adjustments.	(\$6,391)	
2 Contested NOI Audit Adjustments.	(7,591)	
3 Appropriate Salary Adjustment.	(14,706)	
4 Appropriate Benefits Adjustment.	(3,628)	
5 Reflect Appropriate Allocated Relocation Expense.	(550)	
6 Appropriate Transportation Expense.	(1,215)	
7 Reflect Appropriate Rate Case Expense.	(15,123)	
8 Appropriate Bad Debt Expense.	<u>(578)</u>	
Total	<u>(\$49,782)</u>	
<u>Depreciation Expense - Net</u>		
1 Comm. and Utility Agreed Upon Audit Adjustments.	(\$7,670)	
2 To Reflect Phoenix Project Adjustment.	(4,278)	
3 To Reflect Pro Forma Adjustments.	(7,822)	
4 Contested NOI Audit Adjustments.	<u>4</u>	
Total	<u>(\$19,766)</u>	
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$4,434)	
2 Comm. and Utility Agreed Upon Audit Adjustments.	(33)	
3 To Reflect Pro Forma Adjustments.	(1,560)	
4 Payroll taxes associated Salary Adjustment.	<u>(1,125)</u>	
Total	<u>(\$7,152)</u>	

<b>Utilities, Inc. of Longwood</b>		<b>Schedule No. 4</b>			
<b>Wastewater Monthly Service Rates</b>		<b>Docket No. 090381-SU</b>			
<b>Test Year Ended 12/31/08</b>					
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Commission Approved Final</b>	<b>Four-Year Rate Reduction</b>
<b><u>Residential</u></b>					
Base Facility Charge All Meter Sizes:	\$34.98	\$40.31	\$39.09	\$36.73	\$1.27
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$15.14	\$17.45	\$17.14	\$15.90	\$0.55
1"	\$37.83	\$43.60	\$42.85	\$39.73	\$1.37
1-1/2"	\$75.67	\$87.21	\$85.71	\$79.47	\$2.75
2"	\$121.06	\$139.52	\$137.14	\$127.13	\$4.39
3"	\$242.14	\$279.06	\$257.13	\$254.29	\$8.79
Gallage Charge, per 1,000 Gallons	\$2.83	\$3.26	\$3.57	\$2.97	\$0.10
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$34.98	\$40.31	\$39.09	\$36.73	
5,000 Gallons	\$34.98	\$40.31	\$39.09	\$36.73	
10,000 Gallons	\$34.98	\$40.31	\$39.09	\$36.73	