

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Gadsden County by Joyland Water System.

DOCKET NO. 120082-WU
ORDER NO. PSC-13-0044-PAA-WU
ISSUED: January 24, 2013

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

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

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein 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.

CASE BACKGROUND

Joyland Water System (Joyland or Utility) is a Class C water utility located in Gadsden County. Joyland serves approximately 44 water customers. The Utility was issued Grandfather Certificate No. 559-W on March 3, 1994.¹ According to its 2011 Annual Report, gross revenues were \$13,035. The Utility's operating expenses were \$19,791.

On April 12, 2012, we received Joyland's application for a staff-assisted rate case. The instant docket is the Utility's first rate case. We have authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. PSC-94-0234-FOF-WU, issued March 3, 1994, in Docket No. 930752-WU, In re: Application for certificate to provide water service in Gadsden County under grandfather rights by Joyland Water System.

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FPSC-COMMISSION CLERK

ANALYSIS AND DECISION

Quality of Service

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

Quality of Product and Operating Condition of the Plant and Facilities

Our staff conducted a field investigation of the Utility's service area on June 20, 2012. The water treatment system appeared to be operating normally. DEP performed an annual compliance inspection of the Utility's water system on June 7, 2012. No deficiencies were identified. The Utility is current in all of the required chemical analyses, and the Utility has met all required standards. The quality of drinking water delivered to the customers is considered to be satisfactory by DEP. Currently, there are no enforcement activities for non-compliance with DEP rules and regulations. As indicated in the Utility's application for a staff assisted rate case, the water system is scheduled for sampling inorganics, secondary contaminants, synthetic organics, Stage-1 disinfection by-products, asbestos, and lead copper levels in 2012. The costs of these tests will be discussed later in this Order.

The Utility's Attempt to Address Customer Satisfaction

We have received two customer correspondences concerning the proposed rate increase. Currently, there are no outstanding complaints on our Complaint Tracking System. A customer meeting was held on October 9, 2012 at the Gadsden County Public Library in Quincy, Florida. There were five customers who attended the customer meeting. There were no customer comments made during the course of the customer meeting.

Summary

We find that the Utility is currently providing a quality product and maintaining good operational conditions at its plant and distribution system. Also, based on the level of customer participation at the customer meeting and through the lack of complaints and correspondence received, it appears that the customers are generally satisfied with the Utility's provision of water service. Therefore, we determine that Joyland's quality of service shall be considered satisfactory.

Used And Useful

The Utility serves 44 customers (43 residential and 1 general service). The water treatment system has 1 well rated at 40 gallons per minute (gpm). Raw water is treated with liquid chlorine for disinfection purposes. This facility has no storage capacity, and fire flow is not provided. There has been no prior rate case for this Utility; therefore, we have not previously

established a used and useful percentage (U&U) for this Utility. In addition, the service area is essentially built out and there is no apparent potential for expansion. Therefore, pursuant to Rule 25-30.4325, F.A.C., we find that the treatment plant and distribution system are to be considered 100 percent U&U.

Average Test Year Rate Base

The appropriate components of the Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. We have determined to use a test year ended December 31, 2011, for this rate case. A summary of each component and any adjustments follows:

Utility Plant in Service:

The Utility recorded \$43,992 in this account. We used Joyland's annual reports and tax returns to determine the appropriate balance for Utility Plant in Service. The Utility included \$3,500 for a 1997 Toyota truck on its annual report that is owned by the Utility's owner, Ms. Lounette Joyner. We have removed this amount since the Utility does not own the truck, and therefore, determine a Utility Plant in Service balance of \$40,492.

Non-Used and Useful Plant:

As discussed above, Joyland's water treatment plant and distribution system are 100 percent used and useful. Therefore, a non-used and useful adjustment is not necessary.

Contributions-in-Aid-of-Construction (CIAC)

Joyland did not record any CIAC in this account. The Utility was not able to provide any information related to CIAC to our staff auditors. Rule 25-30.570, 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.

The amount attributable to the water transmission and distribution system is \$16,600. In accordance with Rule 25-30.570, F.A.C., we have imputed CIAC in the amount of \$16,600.

Land

Joyland recorded \$8,000 in this account. Land was not recorded in the Utility's general ledger. Therefore, we have relied upon the Gadsden County Property Appraiser's value of the land, which is \$7,150. As such, we have reduced this account by \$850 to reflect the appropriate land value of \$7,150.

Accumulated Depreciation

Joyland recorded \$42,223 in this account for accumulated depreciation. As discussed above, we removed \$3,500 for a non-utility vehicle. Thus, we have made a corresponding adjustment to remove \$3,500 from accumulated depreciation. In addition, we have calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. We have decreased this account by \$6,082 to reflect depreciation calculated in accordance with Rule 25-30.140, F.A.C. Further, we have decreased this account by \$651 to reflect an averaging adjustment. The aforementioned adjustments result in average accumulated depreciation of \$31,990.

Amortization of CIAC

Joyland did not record any amortization of CIAC. As discussed above, we have imputed \$16,600 for CIAC in accordance with Rule 25-30.570, F.A.C. Amortization of CIAC has been calculated using the same prescribed rates used for depreciating the Utility's transmission and distribution system. This account has been increased by \$14,084 to reflect the amortization of CIAC. We have further decreased this account by \$251 to reflect an averaging adjustment, for a final amortization of CIAC balance of \$13,832.

Working Capital Allowance

Joyland did not record any working capital allowance in this account. 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 determine that the one-eighth of the operation and maintenance (O&M) expense formula approach should be used for calculating the working capital allowance. Applying this formula, we determine a working capital allowance of \$2,325 (based on O&M expense of \$18,600).

Rate Base Summary

Based on the foregoing, we find that the appropriate test year average rate base is \$15,209. Rate base is shown on Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B.

Return On Equity (ROE) And Overall Rate Of Return

The Utility's capital structure has been reconciled with the rate base established above. Consistent with our approved leverage formula currently in effect,² the appropriate ROE is 8.74 percent. We therefore determine the Utility's return on equity shall be 8.74 percent with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. We have already determined to use the operating ratio margin for the instant docket; therefore, a determination of the ROE and overall rate of return is not essential for calculating an operating income. However,

² See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-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.

it is important to establish the overall rate of return on a going forward basis for earnings surveillance. The ROE and overall rate of return are shown on Schedule No. 2.

Test Year Revenue

Joyland recorded total revenue of \$13,034. We have annualized revenues based on test year billing determinants and existing rates and determined the Utility's test year revenue to be \$13,061. Therefore, we have increased test year revenues by \$27, for test year revenue of \$13,061. Test year revenue is shown on Schedule No. 3-A.

Operating Expense

Joyland recorded operating expense of \$19,541 for the test year ended December 31, 2011. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. We have decided to make several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601)

Joyland recorded \$7,583 in this account for salaries and wages - employees. This amount includes the salaries and wages for two employees, Mr. Roger Joyner and Mr. Raymond McPherson. Mr. Joyner's duties and responsibilities include handling all phases of operation concerning the well and water production. Mr. McPherson is responsible for billing, receiving account payments, and making deposits. The Utility provided recent W-2 forms for documentation of the salaries and wages for Mr. Joyner and Mr. McPherson totaling \$7,583. We find this amount to be reasonable based on the duties and responsibilities of the employees as well as the number of customers served. Thus, no adjustment has been made to this account, for salaries and wages – employees expense of \$7,583.

Contractual Services – Testing (635)

Joyland recorded \$1,006 in this account for contractual services – testing. Table 6-1 below, includes additional testing that will be completed in 2012:

Table 6-1
Contractual Services - Testing

Test	Frequency	Cost	Yearly Amortization
Inorganics	every 3 years	\$400	\$133
Secondary Contaminants	every 3 years	350	117
Volatile Organics	every 3 years	225	75
Synthetic Organic Contaminants	every 3 years	900	300
Stage 1 Disinfection Byproducts	every 3 years	300	100
Total			<u>\$725</u>

Accordingly, we increase this account by \$725 to reflect required testing expenses, for contractual services – testing total expense of \$1,731 (\$1,006 + \$725).

Contractual Services – Other (636)

Joyland recorded \$179 in this account, which includes monthly internet service fees. We have reclassified this amount from contractual services – other to miscellaneous expenses, for contractual services – other expense of \$0.

Regulatory Commission Expense (665)

Joyland did not record any regulatory commission expenses. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we estimate \$40 for postage expense, \$35 for printing expense, and \$4 for envelopes, resulting in \$79 for postage, mailing notices, and envelopes. The Utility paid a \$200 rate case filing fee. Based on the above, we determine total rate case expense to be \$279. Amortized over four years, this equates to an annual expense of \$70.

Miscellaneous Expense (675)

Joyland recorded \$483 in this account for miscellaneous expense. As discussed above, we reclassified \$179 to this account to reflect monthly internet service fees. In addition, we are increasing this account by \$100 to include the annual Department of Environmental Protection operating license fee, for miscellaneous expense of \$762.

Depreciation Expense (Net of Related Amortization of CIAC)

Joyland recorded \$398 in this account for net depreciation expense. We calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Our calculated depreciation is \$1,588. Therefore, we have made an adjustment to increase this account by \$1,190. In addition, we decreased this account by \$503 to reflect imputation of CIAC, per Rule 25-30.570, F.A.C, for net depreciation expense of \$1,085.

Taxes Other Than Income (TOTI)

Joyland recorded \$1,438 in this account for Taxes Other Than Income. We reviewed Gadsden County's non-ad valorem and ad valorem tax assessment notices, and based on these notices, have determined the Utility recorded the appropriate property taxes of \$116. Therefore, no adjustments have been made for property taxes. Joyland recorded \$580 for payroll taxes. Based on the salaries and wages expense determined above, we calculated payroll taxes of \$1,009. Accordingly, we have increased this account by \$429 to reflect the appropriate payroll tax. Joyland recorded \$138 for unemployment tax. Our auditors determined that the unemployment tax rate is 1.03 percent. Multiplying the unemployment tax rate by salaries and wages expense of \$7,583 yields the appropriate unemployment tax of \$78; therefore, we have reduced this account by \$60.

Joyland recorded \$604 for Regulatory Assessment Fees. Based on test year revenues of \$13,061, the Utility's Regulatory Assessment Fees should be \$587. We have decreased this account by \$16 to reflect the appropriate Regulatory Assessment Fees. As discussed below,

revenues have been increased by \$10,759 to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn a return on investment for its water operations. As a result, Taxes Other Than Income should be increased by \$484 to reflect Regulatory Assessment Fees of 4.5 percent on the incremental change in revenues. We have calculated this amount of Taxes Other Than Income to be \$2,274 (\$1,438 + \$429 - \$60 - \$16 + \$484).

Income Tax

The Utility did not have any income tax expense for the test year. Joyland is a sole proprietorship; therefore, tax liability is passed on to the owners' personal tax returns. Accordingly, we do not make an adjustment to this account.

Operating Expenses Summary

The application of these adjustments to Joyland's recorded test year operating expenses result in operating expenses of \$21,959. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Operating Ratio Methodology

Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenues of less than \$250,000 per system may petition for our staff's assistance in alternative rate setting.

Although Joyland did not petition us for alternative rate setting under the aforementioned rule, we find it appropriate to exercise our discretion to employ the operating ratio methodology to set water rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Joyland's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,³ we for the first time utilized the operating ratio methodology as an alternative means of setting rates. That order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.⁴ Most

³ Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

⁴ 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.

recently, we approved the operating ratio methodology for setting rates in Order No. PSC-12-0533-PAA-WU.⁵

In Order No. PSC-96-0357-FOF-WU, we established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria outlined in Order No. PSC-96-0357-FOF-WU, and how they apply to this Utility, are discussed below:

- 1) Whether the Utility's O&M expense exceeds rate base.
The operating ratio method substitutes O&M expense for rate base in calculating the rate of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than the level of O&M expense. The Utility's primary risk resides with covering its operating expense. We have determined the adjusted rate base for the test year is \$15,209, while adjusted O&M expense is \$18,600.
- 2) Whether the Utility is expected to become a Class B utility in the foreseeable future.
According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenues of \$250,000 or less. Joyland is a Class C utility and the recommended revenue requirement of \$23,819 is substantially below the threshold level for Class B status (\$250,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.
- 3) Quality of service and condition of plant. As discussed in Issue 1, we have determined the quality of service to be satisfactory. The Utility is currently providing a quality product and maintaining good operational conditions at its plant and distribution system.
- 4) Whether the Utility is developer-owned.
The current Utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.
- 5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system.
Joyland operates a water treatment plant and distribution system.

⁵ See Order No. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

Based on our review of the Utility's situation relative to the above criteria, we find that Joyland is a viable candidate for the operating ratio methodology. By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question was not what the return percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the Utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the Utility to cover its interest expense. However, in this case, the Utility is not paying interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the Utility owner for incurring the risk associated with covering the much greater operating cost. Therefore, the margin must adequately compensate the Utility owner for that risk.

Third, if the return on rate base method was applied, a normal return would generate a small level of revenues that in the event revenues or expenses vary from our estimates, Joyland could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. Under the rate base method, the return to Joyland amounts to only \$1,329, which is enough to cover only a 7.15 percent variance in O&M expense. We find \$1,329 is an insufficient financial cushion. If the Utility's operating expenses increase, Joyland may not have the funds required for day-to-day operations.

In conclusion, we find that the above factors demonstrate that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Joyland with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we decide to use the operating ratio methodology at a margin of 10 percent of O&M expense for determining the revenue requirement.

Revenue Requirement

Joyland shall be allowed an annual increase of \$10,759 (82.37 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn an 10.00 percent cushion over its O&M expenses. Our revenue requirement calculation is shown on Table 8-1 below:

Table 8-1

	<u>Water</u>
Adjusted O&M Expense	\$18,600
Operating Margin (%)	x 10.00%
Operating Margin (\$)	\$1,860
Adjusted O&M expense	18,600
Depreciation expense (Net)	1,085
Amortization	0
Taxes Other Than Income	2,274
Income Taxes	0
Revenue Requirement	\$23,819
Less Test Year Revenues	13,061
Annual Increase	\$10,759
Percent Increase/(Decrease)	82.37%

Rate Structure

Joyland's water system is very small. This Utility provides water service to 43 residential customers and 1 non-residential customer. The Utility's current rate structure for the residential and non-residential classes consists of a monthly base facility charge/gallorage charge rate structure. We approved this rate structure in 1994.⁶

Water use in the area is under the jurisdiction of the Northwest Florida Water Management District (NFWFMD or District). Over the past few years, the District has required, whenever possible, that an inclining block rate structure be implemented. However, according to the Utility's consumptive use permit (CUP), the District is not requiring any limiting conditions regarding rate structure.

⁶ See Order No. PSC-94-0234-FOF-WU; issued March 3, 1994, in Docket No. 930752-WU, In re: Application for certificate to provide water service in Gadsden County under grandfather rights by Joyland Water System.

We conducted a detailed analysis of the Utility's billing data in order to evaluate various base facility charge cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with our goals and practices.

Our analysis indicates that the overall average consumption for this customer base is 5,833 gallons per month and the customer base is non-seasonal. Also, our analysis of the billing data indicates that there is little discretionary usage for this customer base. According to the Utility owner, the service area consists of a population of some retirees and families with children. For this reason, we find that the non-discretionary threshold shall be set at 5,000 gallons per month (3 people x 50 gallons per day per person x 30 days). We initially considered a two-tier inclining block rate structure with usage blocks of 0-10,000 gallons in the first block and usage in excess of 10,000 gallons in the second block. Due to the diversity of the service area, however, we believe that a three-tiered rate structure is necessary to achieve the appropriate rate design goals. As discussed below, we have decided not to apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5,000 gallons per month. This results in a three-tier inclining block structure for monthly consumption with usage blocks of: a) 0-5,000 gallons; b) 5,001-10,000 gallons; c) all gallons above 10,000 gallons, with usage block rate factors of .62, 1.00, and 1.25, respectively. Our final rate design for the water system is shown on Table 9-1 below.

Table 9-1

JOYLAND WATER SYSTEM WATER RATE STRUCTURES AND RATES				
Current Rate Structure and Rates		Approved Rate Structure and Rates		
Monthly BFC/uniform Kgal charge		3-Tier Inclining Block Rate Structure Rate Factors .62, 1.00 and 1.25 BFC = 30%		
BFC	\$7.50	BFC		\$13.46
All kgals	\$3.00	1 st tier (no repression)	0-5 kgals	\$5.32
		2 nd tier (discretionary)	5-10 kgal	\$8.62
		3 rd tier (discretionary)	10+	\$10.78
Typical Monthly Bills (1)		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$7.50	0		\$13.46
1	\$10.50	1		\$18.78
3	\$16.50	3		\$29.42
5	\$22.50	5		\$40.06
10	\$37.50	10		\$83.16
20	\$67.50	20		\$190.96

We have determined to set the fixed cost allocation at 30 percent. Due to the magnitude of the revenue requirement increase coupled with the demographics of the service area, our fixed cost allocation allows us to design a rate structure that satisfies our goal of minimizing the rate impact on retirees and families with children who are already conserving. Also, this fixed cost allocation targets the small amount of discretionary usage above 10,000 gallons.

Based on the foregoing, we find that the appropriate rate structure for Joyland's residential class is a three-tier inclining block rate structure. The three-tier rate structure for monthly consumption consists of usage blocks of: a) 0-5,000 gallons; b) 5,001-10,000 gallons; and c) all usage in excess of 10,000 gallons and usage block rate factors of .62, 1.00, and 1.25, respectively. The appropriate rate structure for the non-residential class is a continuation of the base facility charge (BFC)/gallonage charge rate structure. The fixed cost recovery is set at 30 percent.

Repression Adjustment

A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their non-essential consumption (i.e. outdoor irrigation, etc.) in response to price changes, while essential consumption (indoor uses such as cooking, cleaning, drinking, bathing, etc.) remains relatively unresponsive to price changes.

We have conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in the revenue requirement. This analysis showed the overall average consumption is 5,833 gallons per month. This does not indicate a high overall average level of consumption. As we have previously discussed, the billing data indicates that there is very little discretionary usage for this customer base. Furthermore, we determined above that the threshold for a customer's essential usage shall be 5,000 gallons per month. Therefore, a repression adjustment should only apply to water consumption above 5,000 gallons per month.

Using the database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this Utility based upon the our approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have used in prior cases.⁷ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 5,000 gallons per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 5,000 gallons per month).

⁷ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; and PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

Therefore, based on this methodology, test year residential gallons sold shall be reduced by 12.9 percent, resulting in a consumption reduction of 390,000 gallons. Total water consumption for rate setting shall be 2,614,000 gallons. Purchased power expense shall be reduced by \$155, chemical expense shall be reduced by \$14, and regulatory assessment fees (RAFs) shall be reduced by \$8. The post-repression revenue requirement is \$23,643.

In order to monitor the effect of the rate changes to consumption changes, the Utility is ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with our staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility is ordered to file a revised monthly report for that month within 30 days of any revision.

Final Rates

We have determined the pre-repression revenue requirement for this Utility is \$23,820. As discussed above, we have made expense reductions of \$177 associated with the repression adjustment. Our final rates must therefore be designed to produce post-repression revenue of \$23,643.

In designing the rates, the fixed cost allocation shall be set at 30 percent for both the residential and non-residential classes. We have found the appropriate rate structure for the residential class to be a three-tier inclining block rate structure, with usage blocks for monthly consumption of: a) 0-5,000 gallons; b) 5,001-10,000; and c) all usage in excess of 10,000 gallons and usage block rate factors of .62, 1.00, and 1.25, respectively. The rate structure for the non-residential class shall be a traditional monthly base facility charge/uniform gallonage charge rate structure. Applying these rate structures to the post-repression revenue requirement of \$23,643 results in the rates contained on Schedule No. 4.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect these final approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, 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 within 10 days after the date of the notice.

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 rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees. The total reduction is \$81. Using Joyland's current revenue, expenses, capital

structure and customer base, the reduction in revenue 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. Joyland shall also file a proposed customer notice setting forth the lower rates and the reason for the 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 the reduction in the rates due to the amortized rate case expense.

Temporary Approval in the Event of a Protest

In this Proposed Agency Action Order, we have proposed an increase in water rates for Joyland. 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, our approved rates shall be approved as temporary rates. Joyland shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. Those approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The temporary rates collected by the Utility shall be subject to the refund provisions discussed below.

Joyland is authorized to collect the temporary rates upon our staff's approval of an 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 \$7,180. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

- 1) We approve the rate increase; or,
- 2) If we deny the increase, the Utility shall refund the amount collected that is attributable to the increase.

If Joyland 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, and,
- 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 monies in the escrow account may be withdrawn by the Utility without our express approval;
- 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 Joyland;
- 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) Our Commission Clerk must be a signatory to the escrow agreement; and,
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should 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 Joyland, 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), F.A.C.

Joyland shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with our Clerk's Office 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 report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Late Payment Charge

Section 367.091(6), F.S., authorizes us to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility's request for a late payment charge was not accompanied by a cost-justification as required by Section 367.091, F.S.

We handle late payment charge requests on a case by case basis. In the Utility's application, the owner indicated that at least 50 percent of the customer base received late notices last month. Also, she indicated that they are having a persistent problem of not having the option of charging a late payment charge for the customers that are consistently delinquent. Although the Utility did not request a specific late payment charge or provide a cost analysis breakdown for a late payment charge, we believe that a late payment charge of \$5.25 is appropriate in this case. This late payment fee is consistent with majority of the other cases we have previously approved.⁸ The cost basis for the \$5.25 late payment fee is shown below.

Table 14-1

Cost Basis for Late Payment Charge

\$2.25	Office personnel time to search accounts to determine that the bill has not been paid
\$2.50	Prepare, print and sort notices for mailing and transport to the post office
\$0.44	Postage
\$0.05	Envelope and supplies
<u>\$5.25</u>	

The purpose of a late payment charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

Based on the above, we approve Joyland's request for a late payment charge in the amount of \$5.25. The late payment charge should be effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

Adjustment of Books and Records:

To ensure that the Utility adjusts its books in accordance with our decision today, Joyland is ordered to provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable National Association of Regulatory Utilities Commissioners Uniform System of Accounts primary accounts have been made.

Closure of Docket:

If no person whose substantial interests are affected by this proposed agency action files a protest within 21 days of the issuance of this Order, a consummating order will be issued. The docket shall remain open, however, for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

⁸ See Order Nos. PSC-12-0433-PAA-WS; issued August 21, 2012, in Docket No. 110141-WS, In re: Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.; PSC-11-0368-PAA-WU, issued September 1, 2011, in Docket No. 100128-WU, In re: Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Joyland Water System's application for a staff assisted rate case 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 is 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 operating ratio methodology, at a margin of 10 percent of O&M expense, shall be used for determining the Utility's revenue requirement. It is further

ORDERED that Joyland Water System shall file revised tariff sheets and the proposed customer notices to reflect the approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notices and the notice has been received by the customers. Joyland Water System shall provide our staff with proof of the date each 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), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notices are adequate. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period as set forth in the body of this Order and Schedule No. 4. 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, F.S. It is further

ORDERED that Joyland Water System 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 Joyland 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 pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for Joyland Water System on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than Joyland. It is further

ORDERED that Joyland Water System's request for a Late Payment Charge is approved. The late payment charge shall be set at \$5.25, and shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that after the increased rates are in effect on a temporary basis, pursuant to Rule 25-30.360(6), F.A.C., Joyland Water System shall file reports with the Commission's Office of Commission Clerk 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 report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that prior to implementation of any temporary rates, Joyland Water System shall provide the proposed customer notices and appropriate security for the potential refund. Security shall be in the form of a bond or letter of credit in the amount of \$7,180. Alternatively, Joyland may establish an escrow agreement with an independent financial institution. It is further

ORDERED that without respect to the form of security chosen by Joyland Water System, an account of all monies received as a result of the rate increase shall be maintained by Joyland. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that Joyland Water System shall provide proof within 90 days of the final order issued in this docket that the appropriate adjustments for all the applicable National Association of Regulatory Utilities Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made. It is further

ORDERED that, except for the granting of temporary rates, subject to refund, in the event of a protest, reducing rates at the end of the four-year amortization period, and requiring books to be kept in accordance with the NARUC USOA which are final agency action, 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, F.A.C., is received by the Office of 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 this docket shall remain open until our staff has approved the revised tariff sheets and customer notices, Joyland Water System has sent the notices to its customers, our staff has received proof that the customers have received notice, and Joyland Water System has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Upon completion of these actions this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 24th day of January, 2013.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

LDH

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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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.

The action proposed herein 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 14, 2013.

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In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

JOYLAND WATER SYSTEM		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$43,992	(\$3,500)	\$40,492
2. LAND & LAND RIGHTS	8,000	(850)	7,150
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(16,600)	(16,600)
5. ACCUMULATED DEPRECIATION	(42,223)	10,233	(31,990)
6. AMORTIZATION OF CIAC	0	13,832	13,832
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,325</u>	<u>2,325</u>
8. WATER RATE BASE	<u>\$9,769</u>	<u>\$5,440</u>	<u>\$15,209</u>

JOYLAND WATER SYSTEM	SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/11	DOCKET NO. 120082-WU
ADJUSTMENTS TO RATE BASE	
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
To remove non-utility truck.	<u>(\$3,500)</u>
<u>LAND AND LAND RIGHTS</u>	
To reflect appropriate utility land value.	<u>(\$850)</u>
<u>CIAC</u>	
To reflect imputation of CIAC per Rule 25-30.570, F.A.C.	<u>(\$16,600)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$6,082
2. To remove A/D associated with non-utility truck.	3,500
3. To reflect averaging adjustment.	<u>651</u>
Total	<u>\$10,233</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect accumulated amortization per 25-30.140, F.A.C.	\$14,084
2. To reflect averaging adjustment.	<u>(251)</u>
Total	<u>\$13,832</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O&M expenses.	<u>\$2,325</u>

JOYLAND WATER SYSTEM		SCHEDULE NO. 3-A			
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTED. PER UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUSTMENT FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$13,034	\$27	\$13,061	\$10,759 82.37%	\$23,819
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$17,705	\$895	\$18,600	\$0	\$18,600
3. DEPRECIATION (NET)	398	687	1,085	0	1,085
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,438	352	1,790	484	2,274
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$19,541	\$1,934	\$21,475	\$484	\$21,959
8. OPERATING INCOME/(LOSS)	(\$6,507)		(\$8,414)		\$1,860
9. WATER RATE BASE	\$9,769		\$15,209		\$15,209
10. RATE OF RETURN	(66.61%)		(55.32%)		10.00%

JOYLAND WATER SYSTEM	SCHEDULE NO. 3-B
TEST YEAR ENDED 12/31/11	DOCKET NO. 120082-WU
ADJUSTMENTS TO OPERATING INCOME	
	<u>WATER</u>
OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	<u>\$27</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Contractual Services - Testing (635)	
To reflect required testing.	<u>\$725</u>
2. Contractual Services - Other (636)	
To reclassify internet fees to Account No. 675.	<u>(\$179)</u>
3. Regulatory Commission Expense (665)	
Amortize rate case expense over 4 years.	<u>\$70</u>
4. Miscellaneous Expense (675)	
To reclassify internet fees from Account No. 635	\$179
To include annual DEP operating license fee.	<u>100</u>
Total	<u>\$279</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$895</u>
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$1,190
To reflect imputation of CIAC per Rule 25-30.570, F.A.C.	<u>(503)</u>
Total	<u>\$687</u>
TAXES OTHER THAN INCOME	
1. To reflect payroll tax.	\$429
2. To reflect unemployment taxes paid.	(60)
3. To reflect test year revenue RAFs.	<u>(16)</u>
Total	<u>\$352</u>

JOYLAND WATER SYSTEM
TEST YEAR ENDED 12/31/11

SCHEDULE NO. 3-C
DOCKET NO. 120082-WU

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	COMMISSION PER ADJUSTMENT	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$7,583	\$0	\$7,583
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,207	0	1,207
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	111	0	111
(620) MATERIALS AND SUPPLIES	1,168	0	1,168
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	200	0	200
(635) CONTRACTUAL SERVICES - TESTING	1,006	725	1,731
(636) CONTRACTUAL SERVICES - OTHER	179	(179)	0
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	5,768	0	5,768
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	70	70
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	483	279	762
	<u>\$17,705</u>	<u>\$895</u>	<u>\$18,600</u>

JOYLAND WATER SYSTEM		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	COMMISSION APPROVED RATES	MONTHLY RATE REDUCTION
Residential and General Service			
<u>Base Facility Charge by Meter Size:</u>			
All meter sizes	\$7.50	N/A	N/A
5/8"	N/A	\$13.46	\$0.05
3/4"	N/A	\$20.19	\$0.07
1"	N/A	\$33.65	\$0.11
1-1/2"	N/A	\$67.30	\$0.23
2"	N/A	\$107.68	\$0.36
3"	N/A	\$215.36	\$0.73
4"	N/A	\$336.50	\$1.14
6"	N/A	\$673.00	\$2.27
 Residential Service Gallonage Charge			
Per 1,000 Gallons	\$3.00	N/A	N/A
0 – 5000 Gallons	N/A	\$5.32	\$0.02
5001 – 10,000 Gallons	N/A	\$8.62	\$0.03
10,000+ Gallons	N/A	\$10.78	\$0.04
 General Service Gallonage Charge			
Per 1,000 Gallons	\$3.00	\$6.25	\$0.02
 <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$16.50	\$29.42	
5,000 Gallons	\$22.50	\$40.06	
10,000 Gallons	\$37.50	\$83.16	