

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.	DOCKET NO. 130010-WS ORDER NO. PSC-13-0611-PAA-WS ISSUED: November 19, 2013
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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 WATER RATES IN LEE COUNTY  
AND WASTEWATER RATES IN PASCO COUNTY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except with regard to the four-year rate reduction and proof of adjustments, 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**

Ni Florida, LLC (Ni Florida or Utility) is a Class A utility serving approximately 744 water connections in Lee County and 2,583 wastewater connections in Pasco County. Water rates were last established for this Utility in 2011.<sup>1</sup> Wastewater rates were last established for this Utility in 2010.<sup>2</sup> On February 27, 2013, Ni Florida filed an application with the Florida Public Service Commission (Commission) for an increase in its rates and charges for water and wastewater service.

Ni Florida had deficiencies in the Minimum filing Requirements (MFRs). The deficiencies were corrected and June 4, 2013, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The historic test year established for final rates is the period ending September 30, 2012.

<sup>1</sup> See Order No. PSC-11-0199-PAA-WU, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC.

<sup>2</sup> See Order No. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.

By Order No. PSC-13-0179-PCO-WS, we suspended the final water and wastewater rates proposed by the Utility to allow staff sufficient time to process this case.<sup>3</sup> In its filing, the Utility requested final revenue increases of \$52,030 (21.1 percent) for water and \$337,300 (19.3 percent) for wastewater.

By Order No. PSC-13-0218-PCO-WS, issued May 23, 2013, we acknowledged Pasco County's intervention in this docket pursuant to Section 367.091(2), Florida Statutes (F.S.)

This Order addresses Ni Florida's requested final rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, 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 water and wastewater operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer's satisfaction. Comments or complaints received by the Commission from customers are also reviewed as is the Utility's compliance with the applicable Department of Environmental Regulation (DEP) regulations.

#### **Quality of Utility's Product and Operating Condition of Utility's Plant and Facilities**

Ni Florida provides water to customers in Lee County and wastewater service in Pasco County (County). Ni Florida purchases all of the water it sells to customers from Lee County Utilities. The Utility maintains and operates the distribution system that delivers the treated water to its customers.

Ni Florida's wastewater collection system is located in Pasco County. All wastewater is pumped to Pasco County for treatment and disposal pursuant to an agreement made in 1990. By Order No. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU (the last rate case), it was noted that the Utility's wastewater collection system in Pasco County had problems with elevated chloride concentrations. Pasco County had identified the Utility as a high chloride source and required it to meet 250 milligrams per liter (mg/l) chloride levels as part of the contractual agreement for wastewater service. In that case, we determined the overall quality of service was marginal because the 250 mg/l chloride level had not yet been achieved. In Pasco County's petition to intervene in the present case,<sup>4</sup> the County alleges the service charges for maintenance related to inflow and infiltration (I&I) are not accurately stated by the Utility. The County believes that Ni Florida is in breach of its contract with Pasco County because it has failed to stem the infiltration of salt water into its collection system, which results

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<sup>3</sup> See Order No. PSC-13-0179-PCO-WS, issued April 29, 2013, in the current docket.

<sup>4</sup> See Document No. 02546-13, received May 8, 2013, in the current docket.

in Pasco County being in non-compliance with state regulatory standards. The County believes the Commission must consider operating expenses and environmental compliance costs.

In a May 31, 2013, letter to the County, the Utility stated it had made over \$1,031,000 in capital expenditures to the collection system since the 2008 purchase and continues to address the chloride issue and its contractual obligations. Attached to the letter were several reports and summaries, addressing the Utility's chloride reduction efforts. With a weighted average base flow, a chloride amount of 538.5 mg/l was recorded for 2012. Although the chloride levels still exceed the level required by the County, the Utility pointed out in its letter that it is important to remember that tap water enters the system with elevated chloride levels, so minor leaks in the pipeline can bring sampled levels to the 250 mg/l level. The Utility believes factors other than inflow and infiltration (I&I) affect the chloride level of the Utility's system including, but not limited to, commercial water softeners, residential water softeners, and salt water pools. Also, the Utility noted in the letter to the County that its collection system is on the coast, and every storm or related activity adds to the normal problems any system experiences.

In addition to the collection system improvements made by the Utility since the 2008 purchase, the current rate case filing also indicated that \$577,500 in additional pro forma capital expenditures are planned. The pro forma improvements related to chloride reduction include lift station flow monitoring and sampling device installations, and sewer line rehabilitation and replacement. Also, to reflect a line cleaning and collection system repair program, the Utility proposes an annual pro forma expense of \$100,000. Because of these improvements, we find that the Utility is adequately addressing the chloride levels to achieve compliance with the Pasco County agreement. Most of the pro forma improvements have been or will soon be completed by the Utility, and the most recent chloride level tests at its largest flow lift station indicate a 310 mg/l chloride level. Recent tests also show that all the Utility's other lift stations flowing to Pasco County now have chloride levels below the 250 mg/l target. Although the County maintains the costs of treatment is understated in Ni Florida's filing, it has not indicated what it believes the correct costs should be. The County's contract with Ni Florida for bulk wastewater treatment is not under the jurisdiction of the Commission and disputes concerning the contract are properly resolved in circuit court.

A staff field investigation of Ni Florida's service area was conducted on August 14, 2013, in Pasco County for wastewater and August 15, 2013 in North Fort Myers Florida for water. The wastewater and water facilities were in good working order and no deficiencies were observed. The Utility's systems are meeting all DEP requirements and appear to be operating properly. Improvement projects are underway and are intended to help the Utility operate more efficiently and reduce the chloride levels as discussed above. The Utility is showing initiative in its action plan and is working on correcting collection system operational issues. Therefore, we find that the quality of the wastewater product and the operational condition of the water and wastewater facilities is considered satisfactory.

Utility's Attempt to Address Customer Satisfaction

Customer meetings were held on August 14, 2013, in New Port Richey, Florida and on August 15, 2013, in the Tamiami Village Clubhouse, in North Ft. Myers, Florida. At the customer meeting in New Port Richey, approximately eight customers attended and four customers spoke. At the customer meeting in North Ft. Myers, approximately thirty customers attended and five spoke. Representatives of the Utility and the Office of Public Counsel were also present at both meetings. In addition, a County Commissioner from Pasco County was present and made comments. Our staff explained the rate making process to the customers and followed up on specific inquires about cost allocation, rate of return, and rate base calculations. Other customer comments dealt mainly with their opposition to the level of the rate increase and the burden it would place on the residents of the retirement community who live on fixed incomes.

One of the customers in New Port Richey spoke concerning Ni Florida's policy regarding the initiation of service. The customer purchased property and the Utility started billing for wastewater service eight months before service was requested. In accordance with the Utility's tariff, the initiation, continuation or resumption of water service to a customer's property constitutes the initiation, continuation or resumption of wastewater service regardless of occupancy. The customer's meters were read for billing and indicated that water usage was detected at the customer's property; therefore, we find that the customer was charged properly for wastewater services.

Customer concerns in North Fort Myers dealt with two main issues. The first concern dealt with boil water notices. A representative of Tamiami Village Clubhouse and other customers complained about: (1) the number of notices; and (2) that sometimes notices were not given to the whole community. In addition, customers stated that Ni Florida would leave the distribution of the notices up to the Tamiami Village Clubhouse representative for disbursement. In a data request to the Utility about the customer meetings, Ni responded:

Boil water notices are proper and necessary way to inform customers that the water may be unsafe to drink for a period of time due to a water line break or other conditions. As per an agreement requested by the management of Tamiami Village, and in an attempt to keep the management aware of all issues related to water provided to the community, Tamiami Village is emailed the boil water notice, then prints and collates them and gives them to [Ni Florida employee] for distribution to the affected customers. Utility Group [of] Florida [LLC] is charged and Tamiami Village is paid on a per-event basis for this service.

In addition, Ni Florida explained that since acquiring the water system the Utility has installed isolation valves throughout Tamiami Village. Therefore, when a leak does occur, only the affected street would need to be notified. This has significantly improved uninterrupted service for all customers.

The second issue concerned Ni Florida's customer call center. Many customers expressed difficulty in contacting a representative. In response, the Utility stated that it had experienced higher than usual call volumes over the past several months due to transitioning from the Florida call center to the Ni America call center. In addition, the Utility expressed that numerous call center improvements have been made including additional personnel and improved telephone software.

A review of all customer complaints received on the Commission's complaint tracking system in the last three years revealed 26 complaints. Of the 26 complaints, 21 were related to billing issues and have been subsequently resolved. There is currently only one open complaint in the tracking system concerning quality of service. This complaint deals with a possible break in the wastewater line leading to wastewater spillage in a nearby canal. After investigation, it appears the Utility is addressing this situation with new construction in the area.

The customers' concerns regarding timely posting of the boil water notices prepared by Tamiami Village personnel and the lack of timely response to reports of water line breaks were raised in Ni Florida's last rate case. At that time we found the Utility's water quality of service to be satisfactory with the understanding that the Utility was in the process of correcting these problems. Since its last rate case, through upgrades and repairs to its water system the Utility has decreased the number of line breaks, and therefore, the number of boil water notices required. However, it is clear from customer comments at the service hearing and before this Commission that the Utility has continued to fail to provide timely responses and service when problems do arise in Lee County. That is unacceptable. Quality of service is totally within the control of the Utility and there is no excuse for the Utility's continued failure to resolve billing and service problems both quickly and politely. For this reason we find that the quality of service with regard to Ni Florida's water system in Lee County is marginal. We further find that the quality of service with regard to its wastewater system in Pasco County is overall satisfactory.

Finally, we direct that our staff meet with the Utility, customers and the Office of Public Counsel six months from the date of this order to evaluate the quality of service issues discussed above and to bring this matter back to our attention should further actions be necessary.

### **Rate Base**

#### **Audit Adjustments to Rate Base**

In its response to staff's audit report, Ni Florida agreed to the adjustment amounts listed below in Table 1. Therefore, we approve the following adjustments to rate base and operating expenses.

Table 1  
Adjustment to Rate Base and Operating Expenses

<u>Description</u>	<u>Water Plant</u>	<u>Wastewater Plant</u>			
Ni FL AF1--Prior COAs	\$88	(\$442)			
<u>Description</u>	<u>Water Accum. Depr.</u>	<u>Wastewater Accum. Depr.</u>	<u>Water Depr. Exp.</u>	<u>Wastewater Depr. Exp.</u>	
Ni FL AF1--Prior COAs	\$185	\$9,467	\$3,872	\$3,539	
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<u>Description</u>	<u>Wastewater CIAC</u>	<u>Wastewater Accum. Amort. of CIAC</u>			
NI FL AF2-CIAC Credit for Prior Refunds	(\$575)	\$26		(16)	
NI FL AF3-Correction of CIAC Amort.	0	11,453		(4,747)	
Total	(\$575)	\$11,479		(\$1,224)	
<u>Description</u>	<u>Water Working Capital</u>	<u>Wastewater Working Capital</u>	<u>Wastewater Revenues</u>	<u>Water O&amp;M Exp.</u>	<u>Wastewater O&amp;M Exp.</u>
NI FL AF4-Correction of Acct. Rec.	(\$42,277)	\$41,229	\$0	\$0	\$0
NI FL AF8-Reclassification	0	0	1,681	0	0
NI FL AF9-Annualized Reduction KSves	0	0	0	(558)	(2,053)
NI FL AF10-Correction	0	0	0	0	(1,637)
NI FL AF11-Non-Recurring Expenses	0	0	0	0	(6,228)
NI FL AF12-Non-Utility	0	0	0	0	(183)
NI AM AF3-Capitalized Salaries	0	0	0	(1,783)	(6,810)
NI AM AF6-Remove Non-Utility Exp	0	0	0	(1,435)	(5,483)
NI AM AF7-Reclassify Direct Costs	0	0	0	(1,034)	9,980
NI AM AF8-Non-recurring Expenses	0	0	0	(652)	(2,491)
Total	(\$42,277)	\$41,229	\$1,681	(\$5,462)	(\$14,905)

Pro Forma Plant Additions

Ni Florida included \$577,500 of pro forma wastewater plant additions in its MFRs which are reflected in the following table.

Table 2  
Pro Forma Plant Addition

<u>Description of Plant Addition</u>	<u>MFR Amount</u>
Refurbishment Delmar Lift Station (LS)	\$150,000
Install Fence at Flounder LS	2,500
Install Mission Units at 36 remaining LSs	110,000
Elder Valve Installations for Normal Shut-offs	25,000
Elder Valve Installations for Owner/Resident	25,000
Sewer Line Relocation along Highway 19	250,000
Install 5 Liners	10,000
Complete Auto Sampler Installation	<u>5,000</u>
Total Pro Forma Plant Additions	<u>\$577,500</u>

In response to a staff data request, the Utility provided the following justifications for each plant addition: (1) Delmar LS refurbishment is due to the deterioration of the facility wall; (2) Flounder LS fence is for safety and property protection reasons; (3) Mission units are needed to improve response times for high water warnings in LSs; (4) elder valves are for shutting wastewater customers off for non-payment; (5) Sewer Line Relocation is mandated by the Florida Department of Transportation; (6) Installation of 5 Liners is to prevent inflow & infiltration and sources of chlorides; and (7) Auto Sampler is used for composite, flow-proportional, chloride testing at its lift stations that connect to Pasco County's force main.

In its response dated May 20, 2013, to a staff data request, the Utility stated that there are no retirements yet for these pro forma projects. We note that most of the requested pro forma plant additions are new plant items, instead of replacement items, which do not result in any retirements. However, the refurbishment of the Delmar LS, the installation of elder valves for normal shut-offs, and the relocation of the sewer line along Highway 19 requires corresponding retirements. As such, corresponding retirement adjustments to plant, accumulated depreciation, and depreciation expense are needed for these projects.

During staff's field inspection of Ni Florida's facilities, the Utility stated that the elder valve installations for the owner/resident project relate to installation of elder valves at locations where the owner of a dwelling is not the customer of record. In addition, staff noticed that the Utility failed to include corresponding pro forma adjustments to accumulated depreciation and

depreciation expense, as well as a pro forma property tax adjustment associated with its requested pro forma plant additions. We typically allow a corresponding increase of property taxes associated with approved pro forma plant, net of retirements and accumulated depreciation, at the current applicable millage rate.<sup>5</sup> Table 3 below reflects this adjustment to the pro forma property taxes.

Initially, Ni Florida provided support documentation of \$136,785 for its requested pro forma plant additions of \$577,500. In response to a subsequent staff data request, the Utility provided support documentation for \$375,940 of its requested pro forma plant additions of \$577,500. In response to another subsequent staff data request, the Utility provided support documentation of \$576,650 for its requested MFR pro forma plant additions of \$577,500, as well as \$93,801 for a force main replacement at its Del Mar lift station which was not included in its MFRs. The purpose of the Del Mar Force Main Replacement was to replace 1,800 feet of force main related to a main break. Further, consistent with our decision on the elder valve issue discussed below, we approve the corresponding pro forma plant investment of \$25,000.

Based on the above, we approve pro forma wastewater plant additions and retirements of \$601,650 and \$213,734, respectively. As a result, wastewater plant shall be reduced by \$189,584. Accordingly, accumulated depreciation shall be reduced by \$195,356 and depreciation expense shall be increased by \$12,174. In addition, a corresponding adjustment shall be made to increase property taxes by \$9,143. Further, consistent with Rule 25-30.433(9), F.A.C., the Utility shall be allowed to recover an annual amortized loss of \$7,799 for the forced abandonment of lines on US Highway 19. Our approved adjustments are reflected more fully in Tables 3 and 4 below.

Table 3  
Pro Forma Plant Additions

Pro Forma Plant Additions				
<u>Description of Plant Addition</u>	<u>MFR Amt</u>	<u>Plant Amount</u>	<u>Retirements</u>	<u>Plant Adjustment</u>
Refurbishment Delmar LS	\$150,000	\$146,449	(\$60,948)	(\$64,499)
Install Fence at Flounder LS	2,500	0	0	(2,500)
Install Mission Units at 36 remaining LSs	110,000	94,423	0	(15,577)
Elder Valve Installations for Normal Shut-offs	25,000	\$33,051	(1,547)	6,503
Elder Valve Installations for Owner/Resident List	25,000	25,000	0	0
Sewer Line Relocation along Highway 19	250,000	198,166	(102,650)	(154,484)
Install 5 Liners	10,000	10,760	0	760
Complete Auto Sampler Installation	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Total MFR Pro Forma Plant Additions	<u>\$577,500</u>	<u>\$482,849</u>	<u>(\$165,145)</u>	<u>(\$259,796)</u>
Delmar Force Main Replacement	<u>\$0</u>	<u>\$93,801</u>	<u>(\$48,589)</u>	<u>\$45,212</u>
TOTAL	<u>\$577,500</u>	<u>\$601,650</u>	<u>(\$213,734)</u>	<u>(\$189,584)</u>

<sup>5</sup> See Order No. PSC-07-0205-PAA-WS, p. 31, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.



Table 4  
Corresponding Pro Forma Adjustments

Corresponding Pro Forma Adjustments			
<u>Description of Plant Addition</u>	<u>Accum. Depr. Adjustment</u>	<u>Depr. Exp. Adjustment</u>	<u>Property Tax Adjustment</u>
Refurbishment Delmar LS	\$59,260	\$565	\$2,265
Install Fence at Flounder LS	0	0	0
Install Mission Units at 36 remaining LSs	(5,246)	5,246	1,395
Elder Valve Installations for Normal Shut-offs	732	775	504
Elder Valve Installations for Owner/Resident List	(658)	658	397
Sewer Line Relocation along Highway 19	96,044	3,184	2,997
Install 5 Liners	(239)	239	165
Complete Auto Sampler Installation	0	0	0
Del Mar Force Main Replacement	<u>45,462</u>	<u>1,507</u>	<u>1,419</u>
Total Recommended Pro Forma Amounts	<u>\$195,356</u>	<u>\$12,174</u>	<u>\$9,143</u>

Used and Useful Percentages

The used and useful (U&U) calculation for the water distribution system as well as the wastewater collection system is based on the number of customers connected to each system divided by the number of available lots in the service territory. Consideration is also given to growth. The Utility's distribution system currently serves approximately 97 percent of the total number of lots in the service territory. With no growth experienced over the past five years, we believe that the service territory is built out. Also, little or no growth has occurred during the course of the previous two rate cases as well. In its filing, the Utility pointed out that unoccupied lots are spread throughout the system. Therefore, consistent with our decisions in the past two rate cases, we find the water distribution system to be 100 percent U&U.

The Utility's wastewater collection system currently serves approximately 79 percent of the total number of lots in the service territory, with less than 2 percent growth over the previous five years. In its filing, the Utility asserts that the collection system should be considered 100 percent U&U because the unoccupied lots are spread throughout the system. We believe that given the fact that there are no large blocks of unoccupied lots left to be served, the existing wastewater collection system is necessary to serve the current customer base. Therefore, consistent with our decision in the last rate case, we find the wastewater collection system to be 100 percent U&U.

Working Capital Allowance

In its filing, the Utility's working capital allowance for water and wastewater included cash of \$132,599 and \$498,826, respectively. These amounts included \$1,906 for water and \$7,170 for wastewater associated with an escrow account related to interim rates approved in the

Utility's last rate case. The escrow account was closed at some point in December of 2011 with all funds released to Ni Florida. In the instant case, the Utility did not request interim rates. Because ratemaking is prospective in nature, we find a normalization adjustment is necessary to remove the cash amounts associated with this closed escrow account. As such, working capital shall be reduced by \$1,906 for water and \$7,170 for wastewater.

According to its filing, Ni Florida's working capital allowance for water and wastewater included Deferred Rate Case Expense (DRCE) of \$67,287 and \$53,183, respectively. As discussed below, we are approving a total rate case expense in this proceeding of \$149,321. Based on our practice,<sup>6</sup> one-half of the balance of rate case expense shall be included in working capital. The allocation of one-half of the rate case expense for the instant case results in \$15,679 for water and \$58,982 for wastewater. In addition, to determine the appropriate amount of working capital, one-half of the previously approved rate case expense for the water system is \$46,302 and for the wastewater system is \$49,092. In light of the above, the total DRCE shall be \$61,981 for water and \$108,074 for wastewater. As such, working capital shall be decreased by \$5,306 (\$61,981-\$67,287) for water and increased by \$54,891 (\$108,074-\$53,183) for wastewater. These adjustments are illustrated in Table 5 below.

Table 5  
Adjustments

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
MFR Amount	\$26,038	\$483,499
Agreed Audit Adjustments	(42,277)	41,229
Cash Balance Adjustment	(1,906)	(7,170)
DRCE Adjustments	<u>(5,306)</u>	<u>54,891</u>
Staff Calculated Amount	<u>(\$23,451)</u>	<u>\$572,449</u>

A negative working capital balance is not typical of a "normal" utility or the expected future condition of a utility.<sup>7</sup> Therefore, consistent with our practice, we find that the working capital allowance for the water system shall be set at zero.<sup>8</sup> In addition, the appropriate amount of working capital for wastewater is \$572,449, which results in an increase of \$88,950.

<sup>6</sup> See Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company.

<sup>7</sup> See Order Nos. PSC-12-0435-PAA-WU, p. 16, issued August 22, 2012, in Docket No. 110200-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.; and PSC-10-0168-PAA-SU, p. 5, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.

<sup>8</sup> See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.; PSC-97-0076-FOF-WS, issued January 27, 1997, in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for

### Test Year Rate Base

In its MFRs, the Utility recorded rate base of \$301,815 for water and \$3,250,202 for wastewater. We have calculated Ni Florida's water and wastewater rate bases using the Utility's filing with adjustments as approved in the preceding issues. Accordingly, we find that the appropriate 13-month average rate base for the test year ending September 30, 2012, is \$276,050 for water and \$3,366,898 for wastewater. The water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

### Cost of Capital

#### Return on Equity

The Utility requested a rate of return (ROE) of 9.46 percent. Based on the current leverage formula in effect and an equity ratio of 70.23 percent, we find that the appropriate ROE for the wastewater system is 9.42 percent with an allowed range of plus or minus 100 basis points. However, based on our previous finding of marginal quality of water service, we find it appropriate to reduce the ROE for the water service to 9.30 percent with an allowed range of plus or minus 100 basis points.

#### Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.01 percent. In the affiliate audit, staff auditors recommended a reduction of \$181,487 to the balance of long-term debt and an increase of \$14,805 to the balance of common equity. Also, staff auditors recommended a reduction to the cost rate of the Bank of America (BOA) debt issuance from 4.32 percent to 3.60 percent<sup>9</sup> and a reduction to the cost rate of another debt issuance from 10.00 percent to 8.50 percent. In its response to the affiliate audit, the Utility asserted that the debt interest rate should include amortization of its debt expense as well as the impact of the costs of an interest rate swap that Ni Florida utilized to protect the customers if interest rates went higher.

Derivatives are a form of risk management and are common in business operations in many industries. Hedging instruments, like interest rate swaps, are utilized if a utility reasonably expects the use of such instruments to result in lower overall costs to customers. Unlike the investor-owned electric utilities that have numerous debt issuances with an interest rate swap mechanism, Ni America only employed an interest rate swap provision with its BOA debt issuance. We find that the cost recovery associated with Ni America's interest rate swap shall be allowed for ratemaking purposes. However, the Utility failed to quantify and support the amount used to determine the effective interest rate for the BOA loan. Based on a review of the audit work papers, additional issuance costs included two refinances of the BOA loan, as well as the

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possible overearnings; and PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

<sup>9</sup> Our staff auditors' calculated effective interest of 3.60 percent includes the annual amortization of \$24,900 for the original loan fees.

amount that Ni Florida recorded as a miscellaneous current and accrued liability for the interest swap on the BOA loan. With that information, we calculated an annual amortization cost of approximately \$23,000 for the two refinancings of Ni America's largest debt issuance and its interest rate swap provision. With this additional cost, we calculated an effective cost rate of 3.74 percent for BOA Loan and affirmed the 8.50 percent for the Utility's other debt issuance. We find these calculations to be appropriate and approve a weighted average long-term debt cost rate of 4.20 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure, we find appropriate a weighted average cost of capital of 7.84 percent for the Utility's wastewater system as shown on Schedule No. 2. However, based on our previous finding of marginal water quality of service, using an ROE of 9.30 percent for the Utility's water system, we hereby establish a weighted average cost of capital of 7.76 percent for the Utility's water system.

### **Net Operating Income**

#### **Test Year Revenues**

It is our practice that the appropriate test year service revenues are produced from the Utility's billing determinants and the rates in effect at the end of the test year. We have applied the Utility's rates in effect during the test year to test year billing determinants and find that test year service revenues should be increased by \$1,757 for water and \$180 for wastewater.

In its MFRs, the Utility reflected test year Contractual Services – Other expenses of \$124,501. Ni Florida included \$2,101 in that amount for installing elder valves and 6 feet of 4 inch pipe at two different locations. As with our pro forma plant addition for Elder Valve Installations for Normal Shut-offs, these elder valves and additional piping shall also be capitalized to plant. Thus, we find that O&M expenses shall be reduced by \$2,101, and plant shall be increased by \$2,101. Corresponding adjustments shall also be made to increase both accumulated depreciation and depreciation expense by \$55. Further, property taxes shall be increased by \$33.

#### **Allocated Parent Overhead**

The Utility recorded test year allocated parent overhead of \$64,226 for water and \$245,855 for wastewater. The allocated overhead was recorded in the Utility's miscellaneous expense account. In its filing, Ni America, the Utility's parent company, stated that its allocation policy is based on two factors: allocation assignment based on equivalent residential connections (ERC) and direct assignment of costs to the utilities.

On MFR Schedule B-12, Ni America reported \$3,312,516 in allocable O&M expenses for the test year ending September 30, 2012. Ni America allocated \$3,010,584 to its various subsidiaries. The Utility's allocated share was \$301,932 or 9.11 percent of the total allocated overhead. Of the \$301,932, Ni Florida allocated \$62,537 or 21 percent to water, and \$239,395 or

79 percent to wastewater.<sup>10</sup> The remaining amount of parent company O&M expenses was allocated to the subsidiaries through direct assignment. The direct assignment to Ni Florida was \$4,880 for water and \$21,434 for wastewater.

The Utility states that Ni America provides the following functions:<sup>11</sup>

- Accounting
- Annual Reporting Requirements
- Business Development
- Capital Improvements
- Cash Management
- Contract Administration
- Engineering Services
- Finance
- Financial Reporting
- Human Resources
- Income Tax Administration
- Legal Services
- Operations Management
- Payroll Administration
- Rate Case Administration
- Risk Management (Insurance)
- Treasury Management

We have reduced by \$3,870 for water and \$14,784 for wastewater the allocated expenses from Ni America, and we have decreased directly assigned costs by \$1,034 for water and increased directly assigned costs by \$9,980 for wastewater. In its response to the affiliate audit, the Utility objected to two findings related to due diligence costs and the equity sponsor fee. In addition to these contested audit adjustments, we find, as discussed below, that additional adjustments are necessary which relate to: (1) corporate salaries; (2) non-utility costs; (3) director and officer liability insurance; and (4) the ERC count used to allocate costs.

### Contested Audit Adjustments

#### *Due Diligence Costs*

In its affiliate audit report, staff auditors noted that Order No. PSC-11-0199-PAA-WU required the removal of all due diligence costs and salaries related to future acquisitions.<sup>12</sup> Staff auditors noted that the costs included in the filing for Account 680-Due Diligence were \$302,402. This amount does not include salaries. The Utility identified the Senior VP of Business development who spends 100 percent of his time on due diligence and three employees (President, VP of Financial Due Diligence, and VP of Operations) who spend 10 percent of their time on due diligence. The total amount of salaries allocated based on these time allocations was \$152,099 in the test year. Based on the above, staff auditors recommended that water expenses be reduced by \$7,672 and wastewater expenses by \$29,300 to remove the allocated portion of salaries related to acquisitions.

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<sup>10</sup> These amounts reflect reductions by the Utility of \$1,689 for water and \$6,460 for wastewater that related to previous disallowed items in prior cases.

<sup>11</sup> See Order No. PSC-11-0199-PAA-WU, p. 9, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC.

<sup>12</sup> Due diligence are the costs the Utility spends on future acquisitions.

In its response to the affiliate audit, Ni Florida stated that due diligence costs are prudently paid by Ni Florida and result in lower costs to Ni Florida's customers and should therefore be included in determining the proper rates to be set for Ni Florida's customers. By way of background, the Utility asserted that the due diligence costs paid by Ni America as reflected in its schedules resulted in obtaining approximately 11,000 ERCs in an acquisition with the City of Columbia, South Carolina. Ni Florida included these ERCs in the allocation of corporate overhead and therefore Ni Florida had a lower expense for allocated overhead than it would have had otherwise.

It is our practice that the costs incurred for acquisitions or transfers not related to the jurisdictional utility be recorded as below-the-line costs of the shareholders.<sup>13</sup> As stated above, the Utility represented that three employees spend 10 percent of their time on due diligence. Based on job duties for these positions, we note that the President and VP of Operations duties do not specifically mention due diligence. However, the listed duties of the VP of Financial Due Diligence specifically include analyzing the financial condition of new potential acquisitions. In addition, we note Ni America officers do not keep time sheets.

Based on the above, we find that the additional salaries are attributable to due diligence costs. First, the VP of Financial Due Diligence has four main duties with one being the analysis of the financial condition of new potential acquisitions. As such, we find that a 25 percent assignment to due diligence is more appropriate than the 10 percent proposed by the Utility. This would represent an O&M expense reduction of \$310 for water and \$1,184 for wastewater.

Second, the Chief Financial Officer (CFO) has the overall responsibility for the day-to-day management of Ni America and all its subsidiaries. In addition, the CFO leads and directs the Ni America staff, and manages all affairs of Ni America. Given the CFO's duties and with the President and the VP of Operations spending 10 percent of their time on due diligence, we find that an assignment of 10 percent of the CFO's salary for due diligence is appropriate as well. This represents an O&M expense reduction of \$204 for water and \$781 for wastewater.

Based on the above, we find that O&M expense shall be reduced by \$8,202 (\$7,672+\$310+\$220) for water and \$31,324 (\$29,300+\$1,184+\$840) for wastewater in order to remove due diligence costs consistent with our past decisions.

#### *Equity Sponsor Fee*

In its affiliate audit report, staff auditors noted that Order No. PSC-11-0199-PAA-WU removed the equity sponsor fee paid to Metalmark Capital, LLC (Metalmark) because the Utility's share of the equity sponsor fee was recovered through the approved return on equity. Staff auditors noted that Metalmark was paid \$315,000 in the test year for the sponsor fee which

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<sup>13</sup> See Order Nos. PSC-11-0199-PAA-WU, pp. 11-12, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC; and PSC-93-1819-FOF-WS, p. 5, issued December 22, 1993, in Docket No. 930204-WS, In re: Application for amendment of Certificates Nos. 236-W and 179-S and for a limited proceeding to adjust rates in St. Johns County by Jacksonville Suburban Utilities Corporation.

represents a 0.50 percent fee to have access to funds from a private equity fund. The removal of this fee represents an O&M expense reduction of \$5,953 for water and \$22,743 for wastewater. In addition, staff auditors stated that Metalmark was reimbursed \$61,313 by Ni America for audit, tax and compliance expenses, travel costs, and various other expenses. This \$61,313 amount equates to an allocated share of \$1,159 for water and \$4,427 for wastewater. Ni America received invoices from Metalmark listing the expenses, but did not provide any additional backup.

In its response to the affiliate audit, Ni Florida asserted that the equity sponsor fee should not be removed and the resulting water and wastewater expenses should not be reduced by the Commission. As a general rule, the Utility stated that Ni America pays a fee/salary to each member of its Board of Directors but there are two exceptions to that general rule. Ni Florida indicated that two partners of Metalmark serve on Ni America's Board of Directors but neither of these partners receives any direct fee or salary from Ni America for their service on the Board. The Utility contended that each of the two members attends the Board meetings, and discusses and votes on all pertinent board matters relating to Ni America. Because Board of Director fees are generally included in valid corporate expenses, Ni Florida asserted that the equity sponsor fee paid to Metalmark is the equivalent of a Board of Director's fee in that it is Ni America's method of payment to the two Metalmark partners that serve on the Ni America Board of Directors.

We find that the Utility's assertion that the equity sponsor is equivalent to Board of Director's fee does not address our previous finding that the equity sponsor fee is being recovered through the approved return on equity. Based on the above, we find that O&M expenses shall be reduced by \$7,112 (\$5,953+\$1,159) for water and \$27,170 (\$22,743+\$4,427) for wastewater.

#### Corporate Salaries

In order to examine the reasonableness of their salary levels, we compared the duties and responsibilities of Ni Florida parent's nine corporate employees with the American Water Works Associations' (AWWA) 2012 Compensation Survey (CS) as reflected in Table 6 below.

Table 6  
Corporate Salaries at AWWA CS' Maximum Salary Limit

<u>Utility Position Title</u>	<u>Salary</u>	<u>AWWA CS Position Title</u>	<u>Max. Limit</u>	<u>\$ Difference</u>
President	\$220,997	Top Executive	\$123,752	(\$97,245)
Senior VP of Cap. Improvements	116,835	Total Planning Executive	111,890	(4,945)
VP of Operations	148,154	Top Administration Executive	101,654	(46,500)
Senior VP of Human Resources	109,335	Top HR Executive	89,229	(20,106)
Manager Acct. of TX and FL	68,253	Senior Accountant	66,906	(1,347)
Manager of Operations	116,250	Top O&M Expense Executive	105,731	(10,519)
CFO	169,063	Top Finance Executive	108,134	(60,929)
Corporate Controller	<u>103,562</u>	Accounting Manager/Controller	<u>83,010</u>	<u>(20,552)</u>
	<u>\$1,052,448</u>		<u>\$790,306</u>	<u>(\$262,142)</u>

In the past, we have used the AWWA CS' maximum salary limit as a guide for determining corporate salaries.<sup>14</sup> We have also used the AWWA CS' mid-point salary level to determine the appropriate employee salary when a utility failed to include any salary request or requested only a minimal amount.<sup>15</sup> Based on the above, and taking into account the amount of capitalized salary to plant and previous audit adjustments, we find it appropriate in this case to reduce corporate salaries by \$244,948 prior to any allocation. This represents a reduction of \$4,686 for water and \$17,629 for wastewater.

Non-Utility Costs

Upon review of Ni America's general ledger, we identified \$28,884 of costs related to a possible sale of Ni Florida's systems to the Florida Governmental Utility Authority. The sale did not materialize. However, any such divestiture costs should be borne by the shareholders. In addition, we identified \$2,741 of costs that should have been directly assigned costs to Ni America's South Carolina systems. Based on the above, we find that Ni Florida's allocated expenses shall be reduced by \$2,881 [(\$28,884+\$2,741) multiplied by Ni Florida's 9.11 percent]. This represents a reduction of \$605 (\$2,881 multiplied by 21 percent) for water and \$2,276 (\$2,881 multiplied by 79 percent) for wastewater.

<sup>14</sup> See Order No. PSC-13-0187-PAA-WS, pp. 18-19, issued May 2, 2013, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

<sup>15</sup> See Order Nos. PSC-10-0380-PAA-WU, issued June 15, 2010, in Docket No. 090477-WU, In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.; PSC-10-0126-PAA-WU, issued March 3, 2010, in Docket No. 090230-WU, In re: Application for staff-assisted rate case in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility; PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for staff-assisted rate case in Lake County by CWS Communities LP; PSC-08-0039-PAA-WU, issued May 13, 2008, in Docket No. 070601-WU, In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply; and PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.



Director and Officer Liability (DOL) Insurance

According to Ni America's general ledger, it recorded an expense for DOL insurance of \$13,554. The cost of DOL insurance benefits both the ratepayer and the shareholder, and should be shared equally between both of them.<sup>16</sup> As such, DOL insurance costs prior to any allocation shall be reduced by \$6,777 (\$13,554 divided by 2). Based on the above, Ni Florida's allocated expenses shall be reduced by \$617 (\$6,777 multiplied by Ni Florida's 9.11 percent). This represents a reduction of \$129 (\$617 multiplied by 21 percent) for water and \$488 (\$617 multiplied by 79 percent) for wastewater.

ERC Count to Allocate Costs

On MFR Schedule B-12, the Utility reflected the ERC count used to allocate its parent corporate overhead costs. Specifically, Ni Florida took the sum of its monthly ERC count from October 2011 to September 2012, as well as its sister companies to derive its water allocation of 1.88 percent and wastewater allocation of 7.22 percent. We find that two adjustments are necessary to the ERC count to appropriately allocate parent corporate overhead costs. First, because ratemaking is prospective in nature, the monthly ERC count as of September 30, 2012 should be used as a more representative allocation on a going-forward basis. Second, we find that the Utility's September 2012 ECR monthly count of 11,300 for the City of Columbia is understated. In a 2012 order issued by the Public Service Commission of South Carolina, the Utility's sister company stated in its application that the City of Columbia system provides service to 11,370 customers.<sup>17</sup> With these proposed revisions, Ni Florida would receive a revised water allocation of 1.87 percent and wastewater allocation of 7.17 percent. Using these allocation percentages, we approve an O&M expense reduction of \$419 for water and \$1,853 for wastewater.

Based on the above, we approve total allocated and directly assigned costs of \$43,049 (\$39,203+\$3,846) for water and \$181,745 (\$150,331+\$31,414) for wastewater. As addressed above, the allocated expenses from Ni America have been reduced by \$3,870 for water and \$14,784 for wastewater, and directly assigned costs have been decreased by \$1,034 for water and increased by \$9,980 for wastewater. Therefore, we find that allocated O&M expenses shall be further reduced by \$19,464 (\$23,334-\$3,870) for water and \$74,280 (\$89,064-\$14,784) for wastewater, as reflected in the table below.

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<sup>16</sup> See Order Nos. PSC-11-0256-PAA-WS, pp. 78-79, issued June 13, 2011, in Docket Nos. 080121-WS and 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.; PSC-10-0131-FOF-EI, pp. 98-99, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

<sup>17</sup> See Order No. 2012-960, p. 3, issued December 21, 2012, in Docket No. 2012-273-S, In re: Application of Palmetto of Richmond County, LLC for a Certificate That the Acquisition of the City of Columbia Sewer Collection System Serving Portions of Unincorporated Richland County is in the Public Interest and for Establishment of a Service Area and Rates and Charges.

Table 7  
Summary of Allocated and Directly Assigned Costs

Adjustments	Unadjusted Allocated Water Costs of \$64,226	Unadjusted Allocated Wastewater Costs of \$245,855	Utility Directly Assigned Water Costs of \$4,880	Utility Directly Assigned Wastewater Costs of \$21,434
Audit Adjustments in Issue 2	(\$3,870)	(\$14,784)	(\$1,034)	\$9,980
Contested Audit Adjustments	(15,314)	(58,494)		
Corporate Salary Adjustment	(4,686)	(17,629)	0	0
Non-Utility Costs Adjustment	(605)	(2,276)	0	0
DOL Insurance Adjustment	(129)	(488)	<u>0</u>	<u>0</u>
ERC Count to Allocate Costs	<u>(419)</u>	<u>(1,853)</u>		
Recommended Amounts	<u>\$39,203</u>	<u>\$150,331</u>	<u>\$3,846</u>	<u>\$31,414</u>
MFR Requested Amount	<u>\$62,537</u>	<u>\$239,395</u>		
Total Allocated Adjustments	<u>\$23,334</u>	<u>\$89,064</u>		

Rate Case Expense

The Utility included in its MFRs an estimate of \$154,320 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On September 12, 2013, the Utility submitted a revised estimate of rate case expense through completion of the PAA process of \$159,521 with \$149,621 already incurred. The components of the estimated rate case expense are presented in the table below:

Table 8  
Estimated Rate Case Expense

	MFR <u>Estimated</u>	<u>Actual</u>	Additional <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$53,000	\$64,112	\$5,400	\$69,512
Accounting Fees	70,000	81,000	0	81,000
Customer Mailings	<u>31,320</u>	<u>4,509</u>	<u>4,500</u>	<u>9,009</u>
Total Rate Case Expense	<u>\$154,320</u>	<u>\$149,621</u>	<u>\$9,900</u>	<u>\$159,521</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses 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 its review, we find that the revised accounting fees of \$81,000 for MFR preparation, audit facilitation, and responding to data requests are fully supported which represents an \$11,000 increase over the initial estimate of \$70,000. However, three adjustments are necessary to other costs included in the revised rate case expense estimate.

The first adjustment relates to the Utility's legal fees. The Utility included in its MFRs \$53,000 in legal and filing fees to complete the rate case. The Utility provided invoices through August 21, 2013, showing legal expenses associated with the rate case totaling \$55,793 plus an additional \$8,388 for unbilled legal fees for a total of \$64,181 actual legal fees. Additionally, the Utility included an estimate of \$5,331 to complete this PAA rate case. According to the invoices, the law firm of Rutledge Ecenia, P.A., billed the Utility 16 hours related to the correction of MFR deficiencies. Based on the law firm's hourly rate of \$300 per hour, the total amount billed to Ni Florida was \$4,800 ( $\$300 \times 16$ ). We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. Accordingly, we find that \$4,800 be removed as duplicative rate case expense. Thus, the appropriate legal and filing fees shall be \$59,312 ( $\$64,112 - \$4,800$ ). This results in an increase of \$6,312 from its MFR amount of \$53,000.

The second adjustment relates to customer mailings. In its filing, Ni Florida requested \$31,320 for customer mailings. The Utility revised total amount was \$9,009, which included actual costs of \$4,509 and estimated amount of \$4,500 for customer mailings. We find that rate case expense be decreased by \$22,311 ( $\$31,320 - \$9,009$ ) for customer mailings.

The third adjustment relates to allocation of rate case expense. In its filings, Ni Florida allocated rate case expense 30 percent to water and 70 percent to wastewater. We note that the Utility allocated all other allocated test year expenses based on ECRs of its systems which yields a 21 percent water allocation and a 79 percent wastewater allocation. If the ERC allocation method is not utilized, we find that water customers in Lee County would subsidize wastewater customers in Pasco County. Thus, we find that the annual amortization shall be allocated 21 percent to water and 79 percent to wastewater.

In summary, we find that the Utility's revised rate case expense shall be decreased by \$4,999. The appropriate total rate case expense is \$149,321. A breakdown of rate case expense is as follows:

Table 9  
Rate Case Expense

	<u>Utility MFR</u> <u>Estimated</u>	<u>Approved</u> <u>Amount</u>	<u>Approved</u> <u>Adjustments</u>
Legal and Filing Fees	\$53,000	\$59,312	\$6,312
Accounting Fees	70,000	81,000	11,000
Customer Mailings	<u>31,320</u>	<u>9,009</u>	<u>(22,311)</u>
Total Rate Case Expense	<u>\$154,320</u>	<u>\$149,321</u>	<u>(\$4,999)</u>
Annual Amortization	<u>\$38,580</u>	<u>\$37,330</u>	<u>(\$1,250)</u>

Based on the adjustments above, the requested annual rate case expense shall be decreased by \$1,250 (\$37,330-\$38,580). The total rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Ni Florida and the adjustments discussed above, we approve annual rate case expense of \$37,330. Using the approved 21 percent water allocation and a 79 percent wastewater allocation, this results in a reduction of \$3,735 for water and an increase of \$2,485 for wastewater.

Bad debt expense

On MFR Schedules B-5 and B-6, the Utility recorded test year bad debt expense of \$1,232 for water and \$47,346 for wastewater. According to audit workpapers, the Utility also made a corresponding reduction to its test year billing units totaling \$27,249 in reduced revenues. Ni Florida adjusted its test year bad debt expense to \$4,311 and \$30,509 for water and wastewater, respectively, to reflect an amount equal to 1.75 percent of test year revenues. Further, the Utility requested further bad debt expense increases of \$911 for water and \$5,903 for wastewater in order to reflect an amount equal to 1.75 percent of its requested revenue increases. This represents total requested bad debt expense of \$5,222 for water and \$36,412 for wastewater.

In response to an audit data request, the Utility provided its bad debt policy. According to its policy, Ni Florida considers all accounts receivable (AR) balances over 60 days to be uncollectible. However, the Utility analyzes each account on a quarterly basis to determine the likelihood of collecting the accounts receivable balance, such as customer payments and other extenuating circumstances. Any customer who makes no payments for three months has their account classified as an uncollectible account. The total amount deemed to be uncollectible is compared to the balance in Account No. 143, Accumulated Provision for Uncollectible Accounts, and the difference is recorded in Account Nos. 670 for water and 770 for wastewater.

In response to a staff data request, Ni Florida provided further detail of how it analyzes each account on a quarterly basis. First, on a monthly basis, the allowance for doubtful AR is calculated by multiplying the total water revenues by 0.5 percent and wastewater revenues by 1.5 percent. In 2011, Ni America began reviewing the allowance on a quarterly basis which includes analyzing the previous and current individual customer balances and comparing them to subsequent activity, like customer payments. For example, in the months of April, December, and March, AR aging reports are reviewed. Based on subsequent activity, an allowance is calculated. The entire calculated balance per the analysis is compared to the allowance per the general ledger and adjusted if necessary.

The ratio of unadjusted test year bad debt expense to total revenues is 0.50 percent for water and 4.21 percent for wastewater. The Utility's water service in Lee County is easier to turn-off for non-payment than its wastewater service in Pasco County because Ni Florida can shut-off water service at the meter whereas the Utility must either cut and cap the wastewater service lateral or install an elder valve on the service lateral.

We have set bad debt expense using a three-year average in three electric cases,<sup>18</sup> two gas cases,<sup>19</sup> and several water and wastewater cases based on the premise that a three-year average fairly represented future bad debt expense.<sup>20</sup> Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense expected to be incurred by the Utility.

As such, we find that our practice regarding a three-year average basis should be utilized for the Utility's water system because the level of bad debt for this system has not significantly changed over the last three years. According to its annual reports, the Utility's bad debt expense for its water system was \$1,126 in 2010, \$1,179 in 2011, and \$1,193 in 2012. Based on this calculation, Ni Florida shall be entitled to bad debt expense of \$1,166 for water, which we find is representative of Ni Florida's bad debt expense for its water system. Based on the above, we find that the Utility's requested bad debt expense for water of \$5,222 be reduced by \$4,056.

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<sup>18</sup> See Order Nos. PSC-94-0170-FOF-EI, p. 20, 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; PSC-93-0165-FOF-EI, pp. 69-70, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company; and PSC-92-1197-FOF-EI, p. 48, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation.

<sup>19</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., 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, pp. 30-31.

<sup>20</sup> See Order Nos. PSC-10-0585-PAA-WS, pp. 30-31, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; PSC-10-0423-PAA-WS, pp. 23-24, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-10-0407-PAA-SU, p. 18, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-07-0505-SC-WS, pp. 41-42, 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.

However, we find that an adjusted test year methodology shall be used for Ni Florida's wastewater system for the following reasons: (1) the Utility's wastewater system has an exceptionally high test year ratio of bad debt expense to total revenues;<sup>21</sup> (2) the Utility's current bad debt policy commenced approximately two years ago; and (3) there shall be a normalization adjustment to test year bad debt expense resulting from the approved pro forma plant related to the installation of elder valves in the future.

An adjusted test year methodology would involve making the two normalization adjustments mentioned above to the Utility's unadjusted test year bad debt expense for its wastewater system. By utilizing this adjusted test year methodology, we believe that it will result in an amount that will be representative of the bad debt expense expected to be incurred by the Utility.

Based on its current rates, the average wastewater bill is approximately \$36 which results in a two month average amount of approximately \$72. According to its tariff, the Utility has an authorized wastewater customer deposit of \$60. The collection of a customer deposit is consistent with one of the fundamental principles of ratemaking which is ensuring that the cost of providing service is recovered from the cost causer. If utilities do not collect adequate deposits to cover the cost of providing service, the result would be an increase in its bad debt expense. Ultimately, the bad debt expense is included in a utility's revenue requirement, and, therefore, is included in the service rates charged to the general body of ratepayers. Given that the Utility's wastewater system has an exceptionally high test year ratio of bad debt expense to total revenues, we have increased wastewater customer deposits from \$60 to \$72 in order to place the burden on the cost causer rather than the general body of ratepayers.

We have also granted a pro forma plant of \$33,051 related to the installation of elder valves. Because of these installations, it will now be possible for Ni Florida to shut-off wastewater service for any future non-payment for those customer accounts, which should mitigate the amount of bad debt expense going forward. In response to a staff data request, the Utility stated the test year bad debt expense associated with formally past due accounts that are now current was \$560. Thus, we find it appropriate to reduce unadjusted test year bad debt expense for wastewater by \$560. In addition, a corresponding adjustment related to the incremental \$25,000 pro forma plant investment for elder valves shall be made to further reduce test year bad debt expense by \$444.

As discussed above, the installation of elder valves and increase in wastewater customer deposits should decrease the amount of bad debt expense in the future. However, we would also strongly urge the Utility to contact Pasco County and Hudson Water Works, the suppliers of water to its wastewater customers in Pasco County, for the purpose of negotiating agreements to disconnect water service to Ni Florida's delinquent wastewater customers. While we understand that neither the County nor Hudson Water Works has an obligation to enter into such agreements, disconnection of the water to delinquent wastewater customers is normal utility

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<sup>21</sup> The test year bad debt expense to total revenues ratio has increased approximately 75 percent since the 2009 calendar year-end.

practice and does not create the potential health risks that disconnection of wastewater services does.

In summary, we find that the Utility shall be entitled to bad debt expense of \$1,166 for water and \$73,591 for wastewater. Based on a three-year average, Ni Florida's bad debt expense of \$5,222 for water shall be reduced by \$4,056. Using an adjusted test year methodology, Ni Florida's bad debt expense of \$36,411 for wastewater shall be increased by \$37,180. Further, based on these adjustments, wastewater operating revenues shall be increased by \$27,249 to reverse most of the Utility's reduction of test year billing units totaling \$27,249 in reduced revenues.

#### Utility Pro Forma Expenses

In its filing, the Utility requested pro forma water expenses of \$5,615 for purchased water expense and \$4,893 for bank charges related to a new payment system. Also, Ni Florida requested pro forma wastewater expenses of \$19,200 for purchased wastewater expense, \$17,992 for bank charges related to a new payment system, and \$100,000 for a line cleaning program.

We have verified the Utility's requested pass-through pro forma purchased water expense of \$5,615 through support documentation from Lee County and thus find that this amount shall be recognized in rates. However, based on review of the support documentation for the rate charged by Pasco County for purchased wastewater treatment, the prospective purchased wastewater expense represents an increase of \$17,011. As such, we find it appropriate to make an O&M expense reduction of \$2,189 (\$19,200-\$17,011) for wastewater.

The Utility requested new bank charges be included in O&M expense for both the water and wastewater systems. The bank charges are for the new payment system and assume a participation rate of 40 percent multiplied by a \$1.37 transaction fee. We find it appropriate to adhere to our practice of placing the burden on the cost causer rather than on the general body of ratepayers. As such, we find that these expenses shall be disallowed. This represents a reduction of \$4,893 for water and \$17,992 for wastewater.

#### Line Cleaning Program

As stated above, the Utility is requesting \$100,000 for a line cleaning program for its wastewater system. According to our audit, Ni Florida incurred \$43,104 for TV viewing and line cleaning in its test year expenses. With the test year and pro form amounts, this represent a total request of \$143,104 (\$100,000+\$43,104). In the Utility's last rate case for its wastewater system, we granted an annual allowance of \$143,474 for inflow & infiltration (I&I) issues present in its collection system, including leaks in pipes, manholes, and lift stations. In response to a staff data request, Ni Florida stated it spent \$94,404 in 2009, \$0 in 2010, and \$4,722 in 2011 for I&I repairs. Because the Utility spent significantly less than the previously granted amount for I&I repairs and given the recommended pro forma plant additions discussed below, we find that Ni Florida's requested pro forma line cleaning program totaling \$100,000 shall be

disallowed. However, we find that the test year amount of \$43,104 is appropriate for prospective ratemaking purposes.<sup>22</sup>

Pasco County has intervened in this docket and has expressed concerns regarding the I&I issue related to chlorides. However, even with the disallowance above, we find that the chlorides issue is being addressed through \$43,104 in test year expenses and certain recommended pro forma plant additions. Specifically, the Delmar LS refurbishment and the Mission units installation address I&I issues, as does the installation of 5 Liners which prevent I&I and sources of chlorides. These approved pro forma plant additions represent a cumulative incremental investment of approximately \$251,000.

Based on the above, we find that O&M expenses shall be reduced by \$4,893 for water and \$120,181 (\$2,189+\$17,992+\$100,000) for wastewater.

Appropriate Revenue Requirement

In its filing, Ni Florida requested revenue requirements to generate annual revenue of \$298,368 and \$2,080,651 for water and wastewater, respectively. We find that the appropriate revenue requirement is \$260,162 for water and \$1,933,837 for wastewater. This represents an increase in revenues of \$12,067 (or 4.86 percent) for water and an increase in revenues of \$161,376 (or 9.10 percent) for wastewater. These revenue levels should allow the Utility the opportunity to recover its operating expenses and earn a 7.76 percent return on its water rate base and a 7.84 percent return on wastewater rate base.

Table 10  
Revenue Requirement

	<u>Test Year Revenue</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$248,095	\$12,067	\$260,162	4.86%
Wastewater	\$1,772,461	\$161,376	\$1,933,837	9.10%

Rates

Water Rates

Ni Florida's water system is located in Lee County within the South Florida Water Management District. The Utility buys bulk water from Lee County and resells the water to a mobile home and RV park, as well as several general service customers. Approximately 28

<sup>22</sup> We note that our approved test year amount of \$43,104 for line cleaning is greater than the approximate \$38,000 yearly average cost spent from 2009 through the test year.



percent of the residential customer bills during the test year had zero gallons indicating a seasonal customer base. The average residential water demand was 1,633 gallons per month. The customers' overall average consumption has decreased since the Utility's last rate case.

Currently, the Utility's water system rate structure consists of a base facility charge (BFC) and three tier inclining block rate structure for residential customers. The rate blocks are: (1) 0-3,000 gallons; (2) 3,000-6,000 gallons; and (3) usage in excess of 6,000 gallons, with usage block rate factors of 1.00, 1.09, and 1.50, respectively. The RV park's rate structure, which was approved in a settlement in Docket No. 050819-WU, includes a base charge based on the number of Equivalent Residential Customers (ERCs) in the RV park, rather than based on the RV park's meter size, and a gallonage charge.<sup>23</sup> General service customers are billed based on a BFC and gallonage charge.

An analysis of the Utility's billing data was performed in order to evaluate various BFC 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) produce revenue of \$254,137 which is the approved revenue requirement of \$260,162 less miscellaneous revenues of \$6,025; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices. In addition, we found that the general service rates for the larger meter sizes were calculated incorrectly in the prior rate case. Therefore, the existing rate structure needs to be addressed.

Due to the customers' low average consumption, we find that a less aggressive inclining block rate structure for residential customers using two tiers instead of three is appropriate. Transitioning from three tiers to two tiers resulted in percentage price increases for consumption of 3,000 to 6,000 gallons. We find that the BFC allocation shall be set at 57.50 percent. In addition, we find that the three-tier rate structure shall be continued with usage block rate factors of 1.0, 1.25, and 1.75, respectively. This rate structure minimizes the rate increase at the non-discretionary usage levels, while customers using in excess of 6,000 gallons per month, approximately 2.5 percent of the bills, would experience a higher increase.

We find that the BFC for the RV park shall continue to be based on the estimated number of ERCs in the RV park, pursuant to the 2006 settlement. In addition, the BFC for general service customers shall be corrected for the larger meter sizes. The gallonage charge for both the general service customers and RV park shall be reduced to reflect our approved revenue reduction.

Rates for the water system are shown on Table 11 below.

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<sup>23</sup> See Order No. PSC-06-0338-AS-WU, issued April 24, 2006, in Docket No. 050819-WU, In re: Request to establish new class of service for RV park in Lee County, by Tamiami Village Water Company, Inc.

Table 11  
Water Rate Structure and Rates

<b>TABLE 11</b>			
<b>NI FLORIDA, LLC.</b>			
<b>COMMISSION APPROVED</b>			
<b>WATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Approved Rate Structure and Rates</b>	
3-Tier Inclining Block Rate Structure 1.00, 1.09, and 1.50 BFC = 57.74%		3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.25 and 1.75 BFC = 57.50%	
BFC	\$13.61	BFC	\$13.96
0-3 kgals	\$4.78	0-3 kgals	\$4.93
3-6 kgals	\$5.23	3-6 kgals	\$6.17
6+ kgals	\$7.84	6+ kgals	\$8.64
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$13.61	0	\$13.96
1	\$18.39	1	\$18.89
3	\$27.95	3	\$28.75
6	\$43.64	6	\$47.26
10	\$75.00	10	\$81.82
20	\$153.40	20	\$168.22

Wastewater

Ni Florida’s wastewater system is located in Pasco County. The Utility purchases bulk wastewater treatment from Pasco County. Ni Florida provides service to residential and general service customers. The Utility also provides service to a mobile home park as a bulk customer. Approximately 24 percent of the residential customers’ bills during the test year had zero gallons indicating a seasonal customer base. The average water demand for wastewater customers was 2,750 gallons per month.

Currently, the Utility’s wastewater system rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap for residential customers. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. The bulk customer is billed a BFC for a 4 inch meter and the general service gallonage charge.

An analysis of the Utility’s billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers was performed. The goal of the evaluation was to select the rate design parameters that: (1) that produce revenue of \$1,880,184 which is the recommended revenue requirement of \$1,933,837 less miscellaneous revenues of

\$53,653; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

The Utility's proposed BFC allocation is 37.62 percent. Typically, it is our practice to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. However, Ni Florida purchases bulk wastewater service and does not have the same capital investment level as a system with a wastewater treatment plant. Therefore, rates with a BFC allocation of 40 percent is appropriate.

The Utility's existing residential gallonage cap is set at 10,000 gallons. The gallonage cap recognizes that not all water used by residential customers is returned to the wastewater system. It also creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's wastewater billing analysis, the 4,000 gallon level is where 80 percent of the water demand is captured. However, reducing the gallonage cap lowers the number of gallons being used in the rate design and results in a significant increase to the gallonage charge. Under these circumstances we find it is appropriate to gradually reduce the gallonage cap. Therefore, the gallonage cap shall be set at 8,000 gallons. This rate structure minimizes the rate increase at lower usage levels.

The general service gallonage charge is 1.2 times greater than the residential gallonage charge which is consistent with our practice. Currently, the bulk service gallonage charge is higher than the general service charge. This is not typical because bulk service is considered general service as well. Therefore, we find that the bulk service gallonage charge shall also be 1.2 times greater than the residential gallonage charge.

The approved rate design for the wastewater system is shown on Table 12 below.

Table 12  
Wastewater Rate Structure and Rates

<b>TABLE 12</b>			
<b>NI FLORIDA, LLC.</b>			
<b>COMMISSION APPROVED</b>			
<b>WASTEWATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Approved Rate Structure and Rates</b>	
Monthly BFC/ uniform kgals charge BFC =37.62%		Monthly BFC/ uniform kgals charge BFC =40%	
BFC	\$18.91	BFC	\$21.23
Per 1,000 gallons (capped at 10 kgals)	\$6.22	Per 1,000 gallons (capped at 8 kgals)	\$6.96
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$18.91	0	\$21.23
1	\$25.13	1	\$28.19
3	\$37.57	3	\$42.11
6	\$56.23	6	\$62.99
8	\$68.67	8	\$76.91
10	\$81.11	10	\$76.91

As shown on Tables 11 and 12, we find that the appropriate rate structure for the water system’s residential customers is a continuation of the base facility charge (BFC) and three tier inclining block rate structure. The usage blocks shall be: (1) 0-3,000 gallons; (2) 3,000-6,000 gallons; and (3) usage in excess of 6,000 gallons with usage block rate factors of 1.00, 1.25, and 1.75, respectively. The appropriate rate structure for the water system’s general service customers is a continuation of the BFC and uniform gallonage charge. The appropriate rate structure for the RV park is a continuation of a BFC based on the settlement number of ERCs in the RV park and the general service gallonage charge. The appropriate rate structure for the wastewater system’s residential, general service, and bulk customer is a traditional BFC and gallonage charge. The residential wastewater gallonage cap shall be reduced to 8,000 gallons per month. The general and bulk service gallonage charge shall be 1.2 times greater than the residential gallonage charge.

The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility shall file revised tariff sheets and a proposed customer notice to reflect 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 staff has approved the proposed customer

notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

#### Elder Valve Charge

Ni Florida is the wastewater provider for its customers in Pasco County; water service is provided by two utilities: Hudson Water Works and Pasco County. The Utility does not have the ability to disconnect water service when a customer is delinquent in paying for wastewater service. As a result, the Utility has experienced a high level of bad debt expense due to uncollectible accounts. In an effort to reduce the bad debt expense, the Utility has installed some elder valves as an enforcement measure for those customers who are delinquent in paying their bills. An elder valve is a lockable disconnection cleanout device consisting of a special tee and plunger. The elder valve is owned by the Utility and installed on the customer's property. It is used to physically stop all flow from the customer's property to the wastewater system.

For the existing elder valve installations, no customers were assessed a charge. The Utility provided a cost justification requesting a \$400 charge for elder valve installations on a going forward basis. Although the Utility requested \$400 for the elder valve, the actual cost of installing the existing elder valves ranged from \$300 to \$2,700. We find that it is not appropriate to require a delinquent customer to pay an elder valve charge. This could potentially increase bad debt expense due to the fact that the customers were already not paying their wastewater bill. The Utility shall continue to record elder valves as plant with no offsetting CIAC from the customers. The Utility's request for \$25,000 in pro forma plant in service will benefit all customers by potentially lowering bad debt expense on a going forward basis without increasing the likely uncollectable cost of the elder valve installation for the delinquent account. We anticipate that the Utility will judiciously install elder valves to achieve the greatest impact in lowering bad debt expense.

Now that the Utility is able to discontinue wastewater service with the elder valves, the discontinuance of wastewater service should be in accordance with the rule. Pursuant to Rule 25-30.320(2) (g), F.A.C., when a customer fails to pay its wastewater bill within 20 days, the Utility is required to mail a notice which states that the delinquent customer has five business days to remit payment before services may be discontinued. In order to restore wastewater service, the customer will be assessed a violation reconnection fee. Currently, the wastewater violation reconnection fee is set at actual cost. With the presence of an elder valve, the only action required for restoring wastewater service is turning the valve. That being the case, we find that the fee shall be similar to the water violation reconnection fee where the fee is the same as the initial and normal reconnection fee. The Utility's wastewater initial and normal reconnection fees are \$27 each. Therefore, we find that the wastewater violation reconnection fee shall be \$27.

In addition to installing elder valves as a means to help reduce bad debt expense, the Utility's customer deposits can be adjusted. Also, Pursuant to Rule 25-30.311(7), F.A.C., the Utility can require a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills.

Based on the above, we do not approve Ni Florida's requested elder valve miscellaneous service charge for its wastewater system. We find that the Utility's wastewater violation reconnection fee shall be \$27. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved fee. The approved fee shall be effective for violation reconnections 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 fee shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date of notice was given within 10 days of the date of the notice.

#### Customer Deposit

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to two months bills based on estimated average consumption for the customer class.<sup>24</sup>

Consumption-based charges are based on the prior month meter readings. It generally takes five to seven days from the meter reading date until customers are billed. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply and the customer has been provided at least five working days written notice. It is likely that the service would not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.<sup>25</sup>

We find that the initial customer deposit for residential wastewater shall be \$72 for 5/8" x 3/4" meters. General services shall be two times the average estimated monthly bill. The approved initial customer deposits shall be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. Ni Florida shall be required to collect the approved initial customer deposit until authorized to change them by the Commission in a subsequent proceeding.

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<sup>24</sup> See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, 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. and Docket No. 100330-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., pp. 116-7.

<sup>25</sup> Id.

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 shall 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 reductions are \$9,496 and \$35,723 for water and wastewater, respectively. Using Ni Florida's current revenues, expenses, capital structure and customer base, the reduction in revenues shall result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Proof of Adjustment

To ensure that the Utility adjusts its books in accordance with the Commission's decision, Ni Florida 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 Commissioner's 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 the Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC is granted in part as set forth in the body of this Order. It is further

ORDERED that all matters contained in the schedules appended to this Order are incorporated herein by reference. It is further

ORDERED that the Utility shall be required to file revised tariffs and a proposed customer notice to reflect the 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. In addition, the rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice. It is further

ORDERED that in accordance with Section 367.0816, F.S., the water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case

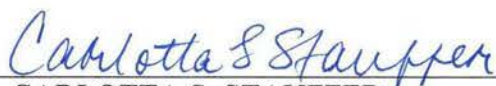
expense recovery period. Ni Florida shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Ni Florida, LLC shall provide proof, within 90 days of the final order in this docket, that the adjustments for all 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, F.A.C., 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 in the event this Order becomes final, this docket shall remain open for staff's verification that the tariff sheets and customer notice have been filed by the Utility and approved by staff, and verification that the Utility has provided proof that the adjustments for all the NARUC USOA primary accounts have been made and approved by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 19th day of November, 2013.



CARLOTTA S. STAUFFER  
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.



NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the statutory four year rate reduction and the requirement that the Utility adjust its books in accordance with our decisions in this Order which are final agency action, 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 December 10, 2013. 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.

Ni Florida, LLC Schedule of Water Rate Base Test Year Ended 09/30/12			Schedule No. 1-A Docket No.130010-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Adjust- ments	Adjusted Test Year
1 Plant in Service	\$515,626	\$0	\$515,626	\$88	\$515,714
2 Accumulated Depreciation	(239,849)	0	(239,849)	185	(239,664)
3 CIAC	(110,779)	0	(110,779)	0	(110,779)
4 Amortization of CIAC	110,779	0	110,779	0	110,779
5 Acquisition Adjustment	712,628	(712,628)	0	0	0
6 Working Capital Allowance	<u>26,038</u>	<u>0</u>	<u>26,038</u>	<u>(26,038)</u>	<u>0</u>
<b>7 Rate Base</b>	<u>\$1,014,443</u>	<u>(\$712,628)</u>	<u>\$301,815</u>	<u>(\$25,765)</u>	<u>\$276,050</u>

Ni Florida, LLC Schedule of Wastewater Rate Base Test Year Ended 09/30/12			Schedule No. 1-B Docket No.130010-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Adjust- ments	Adjusted Test Year
1 Plant in Service	\$7,866,061	\$577,500	\$8,443,561	(\$187,925)	\$8,255,636
2 Land and Land Rights	9,513	0	9,513	0	9,513
3 Accumulated Depreciation	(3,747,514)	0	(3,747,514)	204,767	(3,542,747)
4 CIAC	(3,553,711)	0	(3,553,711)	(575)	(3,554,286)
5 Amortization of CIAC	1,614,854	0	1,614,854	11,479	1,626,333
6 Acquisition Adjustment	3,569,814	(3,569,814)	0	0	0
7 CWIP	10,510	(10,510)	0	0	0
8 Working Capital Allowance	<u>483,499</u>	<u>0</u>	<u>483,499</u>	<u>88,950</u>	<u>572,449</u>
9 <b>Rate Base</b>	<u>\$6,253,026</u>	<u>(\$3,002,824)</u>	<u>\$3,250,202</u>	<u>\$116,696</u>	<u>\$3,366,898</u>

Ni Florida, LLC		Schedule No. 1-C	
Adjustments to Rate Base		Docket No.130010-WS	
Test Year Ended 09/30/12			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Agreed Upon Audit Adjustments – Issue 2.	\$88	(\$442)	
2 Appropriate Pro Forma Plant – Issue 3.	0	2,101	
3 Appropriate Test Year Adjustments – Issue 10.	<u>0</u>	<u>(189,584)</u>	
Total	<u>\$88</u>	<u>(\$187,925)</u>	
<u>Accumulated Depreciation</u>			
1 Agreed Upon Audit Adjustments – Issue 2.	\$185	\$9,467	
2 Appropriate Pro Forma Accum. Depr. – Issue 3.	0	(55)	
3 Appropriate Test Year Adjustments – Issue 10.	<u>0</u>	<u>195,356</u>	
Total	<u>\$185</u>	<u>\$204,767</u>	
<u>CIAC</u>			
Agreed Upon Audit Adjustments – Issue 2.	<u>\$0</u>	<u>(\$575)</u>	
<u>Accumulated Amortization of CIAC</u>			
Agreed Upon Audit Adjustments – Issue 2.	<u>\$0</u>	<u>\$11,479</u>	
<u>Working Capital</u>			
1 Agreed Upon Audit Adjustments – Issue 2.	(\$42,277)	\$41,229	
2 To reflect appropriate cash balance – Issue 5.	(1,906)	(7,170)	
3 Appropriate amount of DRCE – Issue 5.	<u>(5,306)</u>	<u>54,891</u>	
Total	<u>(\$49,489)</u>	<u>\$88,950</u>	

Ni Florida, LLC							Schedule No. 2	
Capital Structure-Simple Average							Docket No.130010-WS	
Test Year Ended 09/30/12								
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	\$2,799,486	\$0	\$2,799,486	(\$1,787,994)	\$1,011,492	31.07%	4.84%	1.50%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	6,162,426	0	6,162,426	(3,935,859)	2,226,567	68.40%	9.46%	6.47%
5 Customer Deposits	47,529	0	47,529	(30,356)	17,173	0.53%	6.00%	0.03%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$9,009,441</u>	<u>\$0</u>	<u>\$9,009,441</u>	<u>(\$5,754,209)</u>	<u>\$3,255,232</u>	<u>100.00%</u>		<u>8.01%</u>
<b>Per Commission</b>								
8 Long-term Debt	\$2,799,486	(\$181,487)	\$2,617,999	(\$1,547,782)	\$1,070,217	29.38%	4.20%	1.23%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	6,162,426	14,805	6,177,231	(3,652,029)	2,525,202	69.32%	9.42%	6.53%
12 Customer Deposits	47,529	0	47,529		47,529	1.30%	6.00%	0.08%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<u>\$9,009,441</u>	<u>(\$166,682)</u>	<u>\$8,842,759</u>	<u>(\$5,199,811)</u>	<u>\$3,642,948</u>	<u>100.00%</u>		<u>7.84%</u>
						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>8.42%</u>	<u>10.42%</u>	
OVERALL RATE OF RETURN						<u>7.15%</u>	<u>8.54%</u>	

Ni Florida, LLC Statement of Water Operations Test Year Ended 09/30/12		Schedule No. 3-A Docket No.130010-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year	Approved Revenue Increase	Approved Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$246,338</u>	<u>\$52,030</u>	<u>\$298,368</u>	<u>(\$50,273)</u>	<u>\$248,095</u>	<u>\$12,067</u> 4.86%	<u>\$260,162</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$218,743	\$25,293	\$244,036	(\$37,610)	\$206,426		\$206,426
3 Depreciation	16,736	0	16,736	3,872	20,608		20,608
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	11,085	2,341	13,426	(2,262)	11,164	543	11,707
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 <b>Total Operating Expense</b>	<u>246,564</u>	<u>27,634</u>	<u>274,198</u>	<u>(36,000)</u>	<u>238,198</u>	<u>543</u>	<u>238,741</u>
8 <b>Operating Income</b>	<u>(\$226)</u>	<u>\$24,396</u>	<u>\$24,170</u>	<u>(\$14,273)</u>	<u>\$9,897</u>	<u>\$11,524</u>	<u>\$21,420</u>
9 <b>Rate Base</b>	<u>\$1,014,443</u>		<u>\$301,815</u>		<u>\$276,050</u>		<u>\$276,050</u>
10 <b>Rate of Return</b>	<u>-0.02%</u>		<u>8.01%</u>		<u>3.59%</u>		<u>7.76%</u>

Ni Florida, LLC Statement of Wastewater Operations Test Year Ended 09/30/12						Schedule No. 3-B Docket No.130010-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year	Approved Revenue Increase	Approved Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$1,743,351</u>	<u>\$337,300</u>	<u>\$2,080,651</u>	<u>(\$308,190)</u>	<u>\$1,772,461</u>	<u>\$161,376</u> 9.10%	<u>\$1,933,837</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	<u>\$1,373,276</u>	<u>\$153,938</u>	<u>\$1,527,214</u>	<u>(\$171,802)</u>	<u>\$1,355,412</u>		<u>\$1,355,412</u>
3 Depreciation	<u>120,477</u>	<u>0</u>	<u>120,477</u>	<u>11,006</u>	<u>131,483</u>		<u>131,483</u>
4 Amortization	<u>10,553</u>	<u>0</u>	<u>10,553</u>	<u>7,799</u>	<u>18,352</u>		<u>18,352</u>
5 Taxes Other Than Income	<u>146,728</u>	<u>15,179</u>	<u>161,907</u>	<u>(4,693)</u>	<u>157,214</u>	<u>7,262</u>	<u>164,476</u>
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 <b>Total Operating Expense</b>	<u>1,651,034</u>	<u>169,117</u>	<u>1,820,151</u>	<u>(157,690)</u>	<u>1,662,461</u>	<u>7,262</u>	<u>1,669,723</u>
8 <b>Operating Income</b>	<u>\$92,317</u>	<u>\$168,183</u>	<u>\$260,500</u>	<u>(\$150,500)</u>	<u>\$110,000</u>	<u>\$154,114</u>	<u>\$264,114</u>
9 <b>Rate Base</b>	<u>\$6,253,026</u>		<u>\$3,250,202</u>		<u>\$3,366,898</u>		<u>\$3,366,898</u>
10 <b>Rate of Return</b>	<u>1.48%</u>		<u>8.01%</u>		<u>3.27%</u>		<u>7.84%</u>

Ni Florida, LLC Adjustment to Operating Income Test Year Ended 09/30/12		Schedule No. 3-C Docket No.130010-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$52,030)	(\$337,300)	
2 Agreed Upon Audit Adjustments – Issue 2.	0	1,681	
3 Appropriate amount of annualized revenues – Issue 9.	1,757	180	
4 Corresponding Revenue Adjustment – Issue 13.	0	27,249	
Total	<u>(\$50,273)</u>	<u>(\$308,190)</u>	
<u>Operation and Maintenance Expense</u>			
1 Agreed Upon Audit Adjustments – Issue 2.	(\$5,462)	(\$14,905)	
2 Appropriate Test Year Adjustments – Issue 10.	0	(2,101)	
3 Appropriate Corporate Overhead – Issue 11.	(19,464)	(74,280)	
4 Appropriate Rate Case Exp. for Instant Case – Issue 12.	(3,735)	2,485	
5 Appropriate Bad Debt Expense – Issue 13.	(4,056)	37,180	
6 Appropriate Pro Forma Expenses – Issue 14.	(4,893)	(120,181)	
Total	<u>(\$37,610)</u>	<u>(\$171,802)</u>	
<u>Depreciation Expense - Net</u>			
1 Agreed Upon Audit Adjustments – Issue 2.	\$3,872	(\$1,224)	
2 Appropriate Pro Forma Depr. Expense – Issue 3.	0	55	
3 Appropriate Test Year Adjustments – Issue 10.	0	12,174	
Total	<u>\$3,872</u>	<u>\$11,006</u>	
<u>Amortization-Other Expense</u>			
Loss on Forced Abandonment of Lines – Issue 3.	\$0	<u>\$7,799</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$2,262)	(\$13,869)	
2 Appropriate Pro Forma Property Taxes – Issue 3.	0	9,143	
3 Appropriate Test Year Adjustments – Issue 10.	0	33	
Total	<u>(\$2,262)</u>	<u>(\$4,693)</u>	



**NI FLORIDA**  
**TEST YEAR ENDING SEPTEMBER 30, 2012**  
**MONTHLY WATER RATES**

**SCHEDULE NO. 4-A**  
**DOCKET NO. 130010-WS**

	<b>UTILITY'S CURRENT RATES</b>	<b>UTILITY'S REQUESTED RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
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**Residential Service**

Base Facility Charge by Meter Size:

5/8"X3/4"	\$13.61	\$16.44	\$13.96	\$0.52
3/4"	N/A	N/A	\$20.94	\$0.78
1"	N/A	N/A	\$34.90	\$1.30
1-1/2"	N/A	N/A	\$69.80	\$2.61
2"	N/A	N/A	\$111.68	\$4.17
3"	N/A	N/A	\$223.36	\$8.35
4"	N/A	N/A	\$349.00	\$13.04
6"	N/A	N/A	\$698.00	\$26.08
8"	N/A	N/A	\$1,116.80	\$41.73

Charge per 1,000 Gallons - Residential

0 - 3,000 gallons	\$4.78	\$5.77	\$4.93	\$0.18
3,001 - 6,000 gallons	\$5.23	\$6.32	\$6.17	\$0.23
6,000 and over	\$7.84	\$9.47	\$8.64	\$0.32

**General Service**

Base Facility Charge by Meter Size:

5/8"X3/4"	\$13.61	\$16.44	\$13.96	\$0.52
3/4"	\$0.00	\$0.00	\$20.94	\$0.78
1"	\$20.42	\$24.66	\$34.90	\$1.30
1-1/2"	\$34.03	\$41.10	\$69.80	\$2.61
2"	\$68.05	\$82.18	\$111.68	\$4.17
3"	\$108.88	\$131.49	\$223.36	\$8.35
4"	\$217.76	\$262.99	\$349.00	\$13.04
6"	\$340.25	\$410.92	\$698.00	\$26.08
8"	\$680.50	\$821.84	\$1,116.80	\$41.73

RV Park	\$1,425.53	\$1,721.62	\$1,462.45	\$54.64
Charge per 1,000 Gallons - General Service	\$5.01	\$6.05	\$5.30	\$0.20

**Typical Residential 5/8" x 3/4" Meter Bill Comparison**

3,000 Gallons	\$27.95	\$33.75	\$28.75	
6,000 Gallons	\$43.64	\$52.71	\$47.26	
10,000 Gallons	\$75.00	\$90.59	\$81.82	

<b>NI FLORIDA</b>		<b>SCHEDULE NO. 4-B</b>		
<b>TEST YEAR ENDING SEPTEMBER 30, 2012</b>		<b>DOCKET NO. 130010-WS</b>		
<b>MONTHLY WASTEWATER RATES</b>				
	<b>UTILITY'S CURRENT RATES</b>	<b>UTILITY'S REQUESTED RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential Service</u></b>				
Base Facility Charge - All Meter Sizes	\$18.91	\$22.69	\$21.23	\$0.40
Charge per 1,000 Gallons – Residential				
8,000 gallon cap	N/A	N/A	\$6.96	\$0.13
10,000 gallon cap	\$6.22	\$7.46	N/A	
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size:				
5/8"X 3/4"	\$18.91	\$22.69	\$21.23	\$0.40
3/4"	\$28.35	\$34.01	\$31.84	\$0.60
1"	\$47.24	\$56.67	\$53.07	\$1.01
1-1/2"	\$94.46	\$113.32	\$106.84	\$2.02
2"	\$151.16	\$181.34	\$169.84	\$3.23
3"	\$302.30	\$362.66	\$339.68	\$6.45
4"	\$472.32	\$566.62	\$530.75	\$10.08
6"	\$944.69	\$1,133.31	\$1,061.50	\$20.17
8"	\$1,511.49	\$1,813.28	\$1,698.40	\$32.27
10"	\$2,172.79	\$2,602.62	\$2,441.45	\$46.39
Bulk Service 4"	\$472.32	\$566.62	\$530.75	\$10.08
Charge per 1,000 Gallons - General Service	\$7.42	\$8.90	\$8.35	\$0.16
Charge per 1,000 Gallons – Bulk Service	\$7.76	\$9.31	\$8.35	\$0.16
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$37.57	\$45.07	\$42.11	
6,000 Gallons	\$56.23	\$67.45	\$62.99	
10,000 Gallons	\$81.11	\$97.29	\$76.91	