

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc. | DOCKET NO. 070694-WS
ORDER NO. PSC-08-0827-PAA-WS
ISSUED: December 22, 2008

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES

BY THE COMMISSION:

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

BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 subsidiaries throughout 16 states, including 16 water and wastewater utilities within the State of Florida. Currently, UI has seven separate rate case dockets pending before us. These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
070693-WS	Lake Utility Services, Inc.
070694-WS	Wedgefield Utilities, Inc.
070695-WS	Miles Grant Water and Sewer Company
080247-SU	Utilities Inc. of Eagle Ridge
080248-SU	Tierra Verde Utilities
080249-WS	Labrador Utilities
080250-SU	Mid-County Services

Wedgefield Utilities, Inc. (Wedgefield or Utility) is a Class A utility providing water and wastewater service to approximately 1,597 water and 1,575 wastewater customers in Orange County. Water rates were last established for this Utility in its 1999 rate case.¹

¹ See Order No. PSC-02-0391-AS-WU, issued March 22, 2002, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

On March 31, 2008, Wedgefield filed its application for a water-only rate increase at issue in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On May 30, 2008, Wedgefield filed responses to the deficiencies identified by Commission staff, and that date was established as the official filing date for this proceeding. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The test year established for final rates is the 13-month average period ending June 30, 2007. Wedgefield requested a final revenue increase of \$446,607 (58.66 percent) for water.

On July 29, 2008, the Office of Public Counsel filed a Notice of Intervention in this docket. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, we are charged with determining the overall quality of service provided by a Utility by evaluating the quality of the Utility's product, the operational condition of the plant and facilities, and the Utility's attempt to address customer satisfaction. Field inspections of the system were conducted on June 30, July 1, and August 5, 2008. In addition, the Florida Department of Environmental Protection (DEP) was asked to determine whether the Utility is in compliance with all environmental regulations.

Quality of the Product and Condition of Plant

In 2005, Wedgefield had a problem with elevated disinfection by-products, specifically total trihalomethanes (TTHM). On December 7, 2005, the water plant modification to convert disinfection from chlorine alone to chloramines was completed. The Utility came into compliance with TTHMs after the water plant was modified.

Wedgefield also had a problem with total sulfides. Sulfides are an aesthetic issue that make the water taste and smell unpleasant. The Utility investigated magnetic ion exchange (MIEX) for the removal of sulfides and organic material. The DEP received the Utility's Pilot Project results on July 27, 2007. It was determined from the pilot study that the MIEX-dissolved organic carbon (DOC) resin effectively removes both the DOCs and the total sulfide from the raw water. The DOCs were removed at an average rate of 61 percent, while 98 percent of the sulfides were removed on average. On July 28, 2008, two MIEX units were installed which has significantly improved the aesthetic quality of the water. In addition, the MIEX units have allowed the Utility to switch back to chlorine for disinfection.

Wedgefield is in compliance with all DEP requirements and the water treatment plants are in good working order. Based on the above, we find that the quality of the Utility's water and the condition of the plant are satisfactory.

Customer Satisfaction

Our Complaint Tracking System and the Utility's customer complaint log was reviewed. Three complaints have been filed in the past three years and each has been resolved. Customer concerns directed to the Utility were related to water quality issues. Typically, the nearby fire hydrant was flushed and that resolved the problem. There are no unresolved complaints which were made directly to the Utility.

A customer meeting was held in Orlando on August 5, 2008. Approximately seventy customers attended and sixteen spoke. The customers expressed concerns about the amount of the proposed rate increase, as well as the hydrogen sulfide and chlorine odor and taste in the water. Some customers indicated that they had replaced faucets, shower heads, and water heaters. Concerns were expressed about the health issues associated with TTHMs and total dissolved solids in the water. Some customers had spent thousands of dollars for a water purification home treatment system. One customer was concerned with a lift station in his back yard and the ownership of the lift station property. Some customers were also concerned with power outages and the Utility's response when they called to find if the boil water notice had been lifted.

On August 25 and September 3, 2008, Wedgefield provided responses to the concerns raised at the customer meeting. In its response, the Utility indicated that the newly constructed MIEX equipment had been in use since July 28, 2008. Enough time has now passed that all parts of the distribution system now provide MIEX-treated water to the customers. Customers will undoubtedly perceive and observe the benefit of the new treatment equipment over time. MIEX is not designed to reduce the calcium hardness of the water and, as a result, Wedgefield's finished water will typically have 130-150 ppm of hardness at the point of entry.

Regarding the analysis of TTHM and Haloacetic Acids (HAA5) in the distribution system, the Utility notified customers by letter in June 2008 that it was reverting to free chlorine disinfection at that time in order to do a "burn" of the distribution system. This maintenance activity is designed to remove the buildup of nitrogen compounds in the piping system in order to make sure that adequate disinfection occurs and is customary with nearly all chloramine disinfection systems. Consequently, it is to be expected that TTHM and HAA5 levels would be elevated until the MIEX treated water is distributed throughout the system. With the removal of the Trihalomethane precursors from the source water, the resulting TTHM values in the distribution system will drop below the Maximum Contaminant Level of 80 ppm. DEP was notified ahead of time of this change in the disinfection process, which is now a permanent condition. MIEX removes the TTHM precursors very effectively and thereby reduces the formation of TTHM, which means that the Utility will not need to revert back to chloramine disinfection.

Samples have been taken upstream and downstream of the MIEX equipment to measure removal efficiency of total sulfides and dissolved organic chemicals. The samples indicate that the MIEX systems removes 96 percent of the total sulfides, and the TTHM's are below the Maximum Contaminant Level of 80 ppm. The amount of chlorine used daily before MIEX was placed in service averaged about 100 gallons per day. Since MIEX has been in service, chlorine

usage has averaged about 25 gallons per day, a decrease of 75 percent. This is another indication that the MIEX equipment has effectively reduced chlorine demand.

A corrosion inhibitor must be added to the finished water in order for the Utility to comply with the Lead and Copper Rule. The corrosion inhibitor is a polyphosphate compound that acts to coat the interior surfaces of the distribution system and household plumbing fixtures, thus preventing the dissolution of lead and copper into the drinking water. It will be necessary to continue the application of the corrosion inhibitor indefinitely in order to comply with regulatory requirements.

The Utility indicated that it has not received any odor complaints regarding the lift station other than the one customer's comments made at the customer meeting. Consequently, the Utility has not considered it necessary to install odor blocks or any other odor control measures at this particular lift station. The lift station pumps were last pulled in November 2007 for repairs. This was the only time in the last two years that the pumps have been pulled. The wet well is cleaned about one to two times per year. In addition, the Utility provided proof of easements for the lift stations. All properties have a platted utility easement and all lift stations are located within the easements.

With regard to customer concerns about estimated bills, the Utility explained that there were 2 estimated bills in Wedgefield between January and May, out of 7,841 bills. In June and July, about 85 percent of the 2,731 bills were estimated as the Utility worked through the implementation phase of the new billing system. In August, 287 bills out of 1,373 (21 percent) were estimated. The Utility expected to have a minimal number of estimated bills in September.

According to the Utility's records, the last two instances where a power outage occurred and the water treatment plant generator failed to run were in August and September of 2004 in connection with Hurricanes Charley and Frances. When Hurricane Charley struck on Friday, August 13, 2004, a circuit board failed in the generator panel, causing an extended water outage. A number of hours passed before the Utility was able to get the generator to run properly and restore pressure in the distribution system. Due to the widespread devastation that impacted the Orlando Utility Commission's (OUC) service area, OUC did not restore normal power for a couple of days. The Utility was able to maintain system pressure during that time interval.

Before the Utility was able to complete permanent repairs to the generator panel after Hurricane Charley, which entailed the replacement of electrical components, Hurricane Frances struck central Florida on September 5, 2004, and caused another power outage and loss of pressure. In that instance, the Utility's operator was able to manually start the generator and transfer power once he arrived at the plant site. The outage lasted only a short while. In both instances, the customers were notified through the media, primarily radio and television stations, which were very good at repeatedly delivering the messages and updating the status of the precautionary boil water advisories. Once DEP received the results of the water samples, the boil water advisory was lifted and the customers were notified through the media. There was no problem with the operation of the water treatment plant's generator when Hurricane Jeanne impacted the area on September 26, 2004, or in any subsequent storms over the last four years.

With respect to the Utility's procedure when a system-wide loss of pressure occurs or when pressure drops below 20 psi, the Utility notifies DEP immediately of the situation and then follows DEP's rule regarding customer notification. In the case of Wedgefield, it is customary to send a news release to the media and request that various local radio and television stations broadcast a precautionary boil water advisory (BWA) in the greater Orlando area that includes Wedgefield. Additionally, the Utility utilizes a reverse-911 calling system to deliver a pre-recorded message to customers that describes who is calling, the reason for the call, and the precautionary steps that customers may take to minimize health risk. The Utility also posts signs at the entrances to the neighborhood. Because of the large number of customers in Wedgefield, it is appropriate to use the media, reverse-911, and street signage to communicate the BWA to the customers. In the event of a more localized scheduled or unscheduled water outage, customers are notified by door hanger in addition to reverse-911. Once DEP lifts the BWA, the Utility again notifies the customers. Past experience with the use of the reverse-911 system indicates that about 70-80 percent of the customers are reached in this manner, and therefore, it is an excellent tool to deliver timely information to the majority of the customers.

Customers only had about one week to enjoy the benefits of the MIEX treated water before the customer meeting and they remembered the past history of the water quality. All indications are that the drinking water quality is vastly improved since the MIEX treatment began. The MIEX DOC resin effectively removes both the DOCs and total sulfide from the raw water. The amount of chlorine used daily since the MIEX system was installed has decreased by 75percent. In addition, it appears the Utility has responded satisfactorily to its customers' concerns. The DEP has indicated that they have not received any recent water quality complaints. Therefore, we find that the Utility's attempts to address customer satisfaction is satisfactory.

Based on all of the above, we find that the overall quality of water service provided by Wedgefield is satisfactory.

RATE BASE ALLOCATION ADJUSTMENTS

In its filing, the Utility reflected Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) allocated rate base of \$99,217 for water. WSC (a subsidiary service company of UI) supplies most of accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. Staff auditors performed an affiliate transactions' (AT) audit of UI, the parent company of Wedgefield and its sister companies.

Subsequent to the issuance of staff's AT audit, staff auditors discovered that several employees from UIF's division office in Altamonte Springs worked on treatment plants in Louisiana, and allocated the capitalized salaries in current rate cases in Louisiana. This allocated capitalized salary should be removed, and the Utility has agreed to the adjustment. This results in an allocated rate base increase of \$34,297 (Plant Increase of \$46,451 less Accumulated Depreciation increase of \$12,154) for water. Based on the above, we find that the appropriate net rate base allocation for Wedgefield is \$133,514 for water.

TEST YEAR PLANT IN SERVICE ADJUSTMENTS

According to staff's audit report, the Utility provided only partial responses to requests for support documentation relating to plant in service. In its response to the audit report, Wedgefield disagreed with the audit findings regarding plant in service, and provided over 900 pages of support documentation. In its response, the Utility acknowledged that it could not provide support for requested documentation totaling \$128,021. Based on the support documentation provided by the Utility, plant in service, accumulated depreciation, operating and maintenance (O&M) expense, and depreciation expense were all recalculated. Based on the above, we find that the following adjustments shall be made:

	<u>Water</u>
Plant in Service	(\$128,021)
Accumulated Depreciation	(\$33,327)
Depreciation Expense	(\$5,825)

USED AND USEFUL

In its filing, the Utility requested that the used and useful percentage for the water treatment plant, ground storage, and transmission and distribution mains be considered 100 percent, 100 percent, and 87.4 percent, respectively. The Utility's calculations include a growth allowance.

The water treatment system has two wells rated at 400 and 600 gallons per minute (gpm). Raw water is pumped through one of two MIEX units to remove organics and total sulfides found in the source water, then into a second ion exchange unit to remove hardness, and then into the 350,000 gallon ground storage tank. The ground storage tank has usable capacity of 315,000 gallons. The single maximum day in the test year of 881,000 gallons occurred on May 31, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's records indicate unaccounted for water of 7.54 percent of the amount produced, which is not excessive. A growth allowance of 44,881 gallons should be added to the used and useful calculation, pursuant to Rule 25-30.431, F.A.C. The Utility has 82 working fire hydrants in the service area and is required by Orange County to have fire flow capacity of 500 gpm for 2 hours. The firm reliable capacity of the water system is 384,000 gpd, pursuant to Rule 25-30.4325(6)(b), F.A.C. Pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful as shown on Attachment A, Page 1 of 2. In addition, because the usable storage capacity is less than the peak day demand, the storage tank should be considered 100 percent used and useful pursuant to Rule 25-30.4325(8), F.A.C.

According to the Utility, the water distribution system was designed to serve approximately 1,911 ERCs based on the number of lots in the service area. The Utility served an average of 1,590 ERCs during the test year including 12 general service customers. The Utility's

historical growth rate has been approximately 16.2 ERCs per year. As shown on Attachment A, Page 2 of 2, the transmission and distribution mains are 87.4 percent used and useful. The service area is close to being built out.

Based on the analysis above, we find that the Wedgefield water treatment plant and storage tank shall be considered to be 100 percent used and useful. The transmission and distribution mains shall be considered to be 87.4 percent used and useful. In its MFRs, the Utility included used and useful adjustments of \$150,245 for plant, \$63,150 for accumulated depreciation, \$3,530 for depreciation expense, and \$2,463 for property tax expense. We reviewed the Utility's calculations and we find that they are reasonable. Accordingly, no further adjustment is needed.

WORKING CAPITAL ALLOWANCE

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the balance sheet method. In MFR Schedule A-17, Wedgefield calculated total company working capital as \$317,596 and allocated 50.37 percent, or \$159,980, to water, based on ERCs. We agree with the Utility's calculation, except as related to deferred rate case expense. The Utility included deferred rate case expense in the amount of \$213,778 in the amount subject to allocation. However, because this case relates to water only, the full amount of approved deferred rate case expense shall be allocated to water.

As will be noted later, adjustments are needed to Wedgefield's rate case expense, reducing the total recommended amount to \$151,575. Further, it has been our practice to include only 50 percent of total deferred rate case expense in working capital. As such, the amount to be included in working capital should be \$75,788. Our calculation of working capital is summarized as follows:

Calculation of Working Capital

Total Company Working Capital, per MFRs		\$317,596
Remove Deferred Rate Case Expense		<u>(213,778)</u>
		\$103,818
Allocation Percentage Based on ECRs		<u>X 50.37%</u>
Total Company Working Capital Allocable to Water		\$52,293
Staff Adjusted Rate Case Expense	\$151,575	
	<u>X 50%</u>	
Average Deferred Rate Case Expense		<u>\$75,788</u>
Adjusted Water Working Capital		\$128,081
Water Working Capital per MFRs		<u>159,980</u>
Adjustment Required		<u>(\$31,899)</u>

Thus, we find that working capital of \$128,081 shall be approved for water. This reflects a decrease of \$31,899 from the Utility's requested working capital allowance of \$159,980 for water.

NET DEBIT DEFERRED INCOME TAXES

In its MFRs, Wedgfield included net debit deferred income taxes in the amount of \$321,823 in its capital structure. We reviewed the relevant MFR schedules and the Utility's Annual Reports for 2006 and 2007, and we agree with this amount. Rule 25-30.433(3), F.A.C., states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. No other deferred debits shall be considered in rate base when the formula method of working capital is used.

As noted above, the Utility made an adjustment for non-used and useful plant in the amount of \$150,245. In order to determine the appropriate used and useful adjustment for deferred taxes, we have taken the ratio of non-used and useful plant to depreciable plant (per books) and applied this ratio to the amount of net debit deferred income taxes, resulting in a

reduction of \$7,084. Therefore, we find that rate base shall be increased to include used and useful net debit deferred income taxes in the amount of \$314,739 (\$321,823 less \$7,084).

RATE BASE

Consistent with our other adjustments, the appropriate 13-month average rate base for the test year ending December 30, 2007, is \$4,779,794 for water. The approved rate base is shown on Schedule No. 1-A. The adjustments are shown on Schedule No. 1-B.

RETURN ON COMMON EQUITY

The return on equity (ROE) requested in the Utility's filing is 11.86 percent. This return is based on the application of our leverage formula approved in Order No. PSC-07-0472-PAA-WS, and an equity ratio of 41.23 percent.²

Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 41.23 percent, the appropriate ROE is 11.86 percent. We approve an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

WEIGHTED AVERAGE COST OF CAPITAL

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, we approve a weighted average cost of capital of 8.68 percent. The weighted average cost of capital included in the Utility's filing is 9.29 percent. Details are included in Schedule No. 2.

The test year per book amounts were taken directly from Wedgefield's MFR filing Schedule D-2. As previously noted, the Utility included net debit deferred income taxes in the amount of \$321,823 in its cost of capital. Rule 25-30.433(3), F.A.C., states that net debit deferred income taxes are to be included in rate base rather than in the capital structure. We made an adjustment of \$321,823 to remove net debit deferred income taxes from Wedgefield's capital structure.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, we approve a weighted average cost of capital of 8.68 percent as outlined in Schedule No. 2.

NET OPERATING INCOME

In Schedule B-3 of its MFRs, Wedgefield included a pro forma adjustment of \$66,453 for the annual cost of additional chemicals associated with the new water treatment process. As a result of discussions at the customer meeting, we learned that the MIEX system would actually

² See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

use approximately 75 percent less chlorine than the previous system. In response to our inquiry, the Utility calculated the annual savings from this reduction to be \$19,395. We have reviewed the Utility's calculation and believe that it is reasonable. Therefore, we find that an adjustment shall be made to reduce pro forma chemicals by \$19,395.

In its filing, Wedgefield also reflected several pro forma expense adjustments for inflation totaling \$5,062. As discussed below, we find that the inflation adjustments shall be removed.

In the Utility's test year approval letter dated November 9, 2007, UIF stated that its historic test year ending June 30, 2007, is representative of a normal full year operation. However, on Schedule B-3, the Utility made adjustments to increase its purchased power, chemicals, materials and supplies, contractual services – accounting, contractual services – legal, contractual services – testing, contractual services – other, transportation expenses, insurance – other, bad debt expense, and miscellaneous expense. More than 20 percent of the total Consumer Price Index (CPI) adjustment was for miscellaneous expense alone. We do not believe that the Utility has adequately supported its CPI adjustments to the O&M expenses. Therefore we find that UIF's O&M expenses shall be decreased by \$5,062 to reflect the removal of the Utility's CPI adjustments. This adjustment is consistent with our decisions in two recent rate cases for two sister companies of Wedgefield.³

In summary, we approve adjustments to pro forma chemicals in the amount of \$19,935 and to pro forma O&M expenses in the amount of \$5,062, for a total reduction of \$24,457.

RATE CASE EXPENSE

The Utility included in its MFRs, an estimate of \$214,318 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 6, 2008, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$196,589. The components of the estimated rate case expense are as follows:

	MFR		Additional	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$45,240	\$20,605	\$12,789	\$33,394
Consultant Fees - MSA	84,880	82,321	4,130	86,451
Consultant Fees - M & R	8,790	4,027	5,450	9,477
WSC In-house Fees	53,350	23,660	10,553	34,213
Filing Fee	4,000	2,000	0	2,000
Travel - WSC	3,200		3,200	3,200
Miscellaneous	12,000	13,756	12,000	25,756
Notices	<u>2,858</u>	<u>898</u>	<u>1,200</u>	<u>2,098</u>
Total Rate Case Expense	<u>\$214,318</u>	<u>\$147,267</u>	<u>\$49,322</u>	<u>\$196,589</u>

³ See Order Nos. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida. and PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and 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 our review, we believe several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of invoices and the Utility's consultants, a combined amount of \$4,063 was billed for correcting the MFR deficiencies and revising the Utility's filing. The amount associated with deficiency corrections (\$4,063) was identified in our review of the invoices. According to the invoices, Christian Marcelli and Martin Friedman of Rose, Sundstrom & Bentley, LLP, billed the Utility a total of \$2,838 related to the correction of MFR deficiencies. Additionally, Maria Bravo of Milian, Swain & Associates, billed the Utility \$1,225 related to the correction of MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁴ Accordingly, \$4,063 (\$2,838 + \$1,225) shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Wedgefield estimated 44.1 hours or \$12,789 in fees to complete the rate case. The specific amounts of time associated with each item are listed below:

<u>Estimate To Complete Through PAA Process</u>		
<u>Description</u>	<u>Hours</u>	<u>Fees</u>
Unbilled time through date of filing estimate	6.6	\$1,914
Respond to staff's data requests	16.0	4,640
Review Staff's recommendations; Conferences with client and consultants regarding same; Conference with Staff	2.0	580
Prepare for and travel to Tallahassee to attend Agenda; discuss agenda with client and staff	15.0	4,350
Review PAA Order; conference with client and consultants regarding PAA Order	2.0	580
Prepare revised tariff sheets; obtain staff approval of tariffs; draft and revise customer notice, obtain staff approval; coordinate mailing of customer notices and implementation of tariffs	2.5	725
Total estimated fees	<u>44.1</u>	<u>\$12,789</u>

As discussed below, it is the Utility's burden to justify its requested costs. We believe that 44.1 hours is a reasonable amount of time to respond to data requests, conference with the

⁴ See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

client and consultants, review staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters.

Wedgefield did not include estimated travel costs for legal representation at the Agenda Conference. We believe that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage, and one day's lodging is \$425. We calculated travel expenses of \$425, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$196), hotel rates from a website (\$149) and a meal allowance (\$80). Accordingly, we find that rate case expense for Legal Fees shall be increased by \$425.

The third adjustment relates to the Utility's estimated consultant fees for Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman documented \$4,027 in actual fees and costs to date (based on his normal billing rate of \$135 per hour) and estimated 54 hours or \$5,400 (54 X \$100) plus \$50 in expenses to complete the rate case, for a total cost of \$9,477. Specifically, Mr. Seidman estimated 50 hours to assist with and respond to data requests and new information, and four hours to prepare for and attend the Agenda Conference. We find that four hours is a reasonable amount of time to prepare for and attend the Agenda for this docket. This is consistent with the hours we allowed for completion in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.⁵ However, we believe that the 50 hours to assist with and respond to data requests and new information is not supported by specific tasks and time estimates and shall be removed. We believe that a reasonable amount to complete this docket is \$540 (4 hours x \$135), resulting in a total cost of \$4,567 (\$4,027 plus \$540). Accordingly, we find that rate case expense shall be decreased by \$4,910 (\$9,477 less \$4,567).

The fourth adjustment relates to the 240 hours and \$10,552 of estimated costs to complete this case by WSC employees. Wedgefield asserts that additional hours were required to respond to our staff's auditors' requests and to the staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Wedgefield simply stated that the \$10,552 was to assist with data requests and audit facilitation. However, the audit and the Utility's response have already been completed. The hours needed to complete data requests were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, we have no basis to determine whether the individual hours estimated are reasonable. These requested expenses were reviewed and we believe that the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. We find that 36 hours is reasonable to allow Wedgefield to respond to data requests, review the PAA recommendation, and travel to the Agenda Conference. By applying the individual employee rates and the average number of hours worked by WSC employees, we find that the estimated WSC fees to complete the case shall be \$1,296. Thus, the Utility's requested expense of \$10,552 shall be decreased by \$9,256. In those cases where rate case

⁵ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.⁶

The fifth adjustment relates to the 28 hours and \$4,130 of estimated consulting fees to complete this case by Milian, Swain and Associates, Inc. Wedgefield asserts that additional hours were required to respond to the staff auditor and staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Wedgefield simply stated that the \$4,130 was to assist with data requests and audit facilitation. However, the audit and the Utility's response have already been completed. The hours needed to complete data requests were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, we have no basis to determine whether the individual hours estimated are reasonable. These requested expenses we reviewed and we find that the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. We find that 3 hours each by Deborah Swain and Maria Bravo (at \$180 per hour and \$140 per hour respectively) is reasonable to allow Wedgefield to respond to data requests. We find that the estimated Milian, Swain and Associates, Inc. fees to complete the case shall be \$960. Thus, the Utility's requested expense of \$4,130 shall be decreased by \$3,170.

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. by 529 So. 2d 694 (Fla. 1988).

The sixth adjustment addresses WSC's travel expenses. In its MFRs, Wedgefield estimated \$3,200 for travel. However, based on several previous UI rate cases, it is our experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore the entire amount of estimated travel expense shall be removed. Accordingly, we find that rate case expense shall be decreased by \$3,200.

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. In its updated estimate Wedgefield claimed \$13,756 in actual costs and estimated another \$12,000 in FedEx Corporation (FedEx), copies and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for the \$12,000. We are concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from us to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C.

⁶ See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. In all of these cases, the entire unsupported amounts were removed.

However, when a Utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., at p. 1, we found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books were maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.⁷ We find that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Then the documents are submitted to the Commission. We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and therefore, they shall bear the related costs. Therefore, we find that miscellaneous rate case expense shall be decreased by \$12,000.

The eighth adjustment relates to miscellaneous costs. The only invoices provided for miscellaneous costs were from CPH Engineering, Inc. regarding the service area mapping for Miles Grant Water and Sewer Company, Wedgefield, and Lake Utility Services, Inc., an invoice for \$280 from CPH Engineering for small projects, and invoices from Office Team totaling \$680 for temporary help. The mapping invoice was for \$13,051; however, because the invoice related to two other utilities, Wedgefield's share of the invoice shall be one-third of the invoice or \$4,350. We find that the Utility has documented \$5,310 of actual costs (\$4,350 + \$280 + \$680). Therefore, miscellaneous rate case expense shall be decreased by \$8,446 (\$13,756 - \$5,310).

The ninth adjustment relates to customer notices and postage. Wedgefield stated in its revised analysis of rate case expense that it had already incurred \$348 for copying, and estimated an additional \$1,200 for copying and postage costs to complete the rate case. The Utility did not provide any support for its postage costs; therefore, we estimated the costs related to notices and postage. Wedgefield is responsible for sending two notices, the combination initial notice and customer meeting notice, and the notice of the final rate increase. We estimated the postage cost for the notices to be \$1,100 (1,591 customers x \$0.346 x 2 notices). We also estimated the copying cost for the final notice to be \$257. We believe the appropriate cost for copying and mailing customer notices to be \$1,705 (\$348 + \$1,100 + \$257). Therefore, we find that rate case expense shall be decreased by \$393 (\$2,098 - \$1,705) for postage and copying costs.

In summary, we find that the Utility's revised rate case expense shall be decreased by \$45,013 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$151,575. A breakdown of rate case expense is as follows:

⁷See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA; and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County.

	MFR	Utility Revised Actual & Estimated	Adjustments	Total
	<u>Estimated</u>	<u>Estimated</u>		
Legal and Filing Fees	\$45,240	\$33,394	(\$2,413)	\$30,981
Consultant Fees - MSA	84,880	86,451	(4,395)	82,056
Consultant Fees - M & R	8,790	9,477	(4,910)	4,567
WSC In-house Fees	53,350	34,213	(9,256)	24,956
Filing Fee	4,000	2,000	0	2,000
Travel - WSC	3,200	3,200	(3,200)	0
Miscellaneous	12,000	25,756	(20,446)	5,310
Notices	<u>2,858</u>	<u>2,098</u>	<u>(393)</u>	<u>1,705</u>
Total Rate Case Expense	<u>\$214,318</u>	<u>\$196,589</u>	<u>(\$45,013)</u>	<u>\$151,575</u>
Annual Amortization	<u>\$53,580</u>	<u>\$49,147</u>	<u>(\$11,253)</u>	<u>\$37,894</u>

In its MFRs, Wedgefield requested total rate case expense of \$214,318, which amortized over four years would be \$53,580. The Utility included in its MFRs \$53,580 for rate case expense in the test year for water. Thus, rate case expense shall be decreased by \$15,686 for water.

The total rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Wedgefield and the adjustments discussed above, the annual rate case expense shall be \$37,894 for water.

OPERATING INCOME BEFORE ANY INCREASE

As shown on Schedule No. 3-A, after applying adjustments, the Utility's net operating income is \$185,017 for water. Our adjustments to operating income are shown on Schedule No. 3-B.

PRE-REPRESSION REVENUE REQUIREMENT

Wedgefield's requested revenue requirement generates annual revenues of \$1,207,935 for water. This requested revenue requirement represents a revenue increase of \$446,607, or 58.66 percent, for water.

Consistent with our findings regarding the underlying rate base, cost of capital, and operating income issues, we hereby approve rates that are designed to generate a water revenue requirement of \$1,147,242. The approved water revenue requirement exceeds the adjusted test year revenues by \$385,914, or 50.69 percent, for water. This pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn an 8.68 percent return on its investment in water rate base.

The following pre-repression revenue requirement shall be approved:

	Test Year		Revenue	
	<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Water	\$761,328	\$385,914	\$1,147,242	50.69%

RATE STRUCTURE

Wedgfield provides both water and wastewater for its residential and general service customers. However, in its current filing, the Utility has requested a rate increase for the water system only. The current rate structure for the water system's residential and non-residential classes consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure, in which the BFC is \$21.12 and a gallonage charge of \$2.19 per kgal. As indicated in the MFRs Schedule E-2, page 1, Wedgfield has proposed a continuation of this rate structure for all its customers.

We performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential class. The goal of the evaluation was to select parameters such that the rate design: 1) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; 3) sets the BFC between 25 percent and 40 percent whenever possible; and 4) recognizes various conditions of the Utility's Consumptive Use Permit.

The Utility is located in Orange County, within the St. John's River Water Management District (SJRWMD or District) in the Central Florida Caution Area (CFCA). Over the past few years the Districts have requested, whenever possible, that an inclining block rate structure be implemented.

As indicated in the District's Consumptive Use Staff Report, the Utility has a low per capita of 110 gallons per day per capita (gpcd) water use which is 34.6 percent below the District benchmark of 150 gpcd. However, based on our analysis of the billing data, the residential customers' average monthly consumption is 8.3 kgal. This is an indication that there are high levels of discretionary usage that is relatively sensitive to price increases. Moreover, an analysis of the billing data shows that 20 percent of the customers consume over 10 kgal per month. We are in favor of designing a rate structure that will target customers with consumption over 10 kgal while customers with low monthly consumption benefit by paying a lower rate. Therefore, implementing an inclining block rate structure is appropriate for the residential class of service. An inclining block rate structure is effective in reducing average demand. Demand in the higher usage block should be more responsive to price than demand in the first usage block.

The service area is comprised of a diverse group of residential customers with single family homes that range in size. The customers are working families and also retirees. For this reason, we believe that it is necessary to implement a three-tiered rate structure to accomplish the goals of minimizing the price increases for residential customers with low monthly consumption as well as targeting the customers who use high volumes of water. Our analysis indicates that a three-tiered rate structure with usage blocks set at: 1) 0-5 kgal; 2) 5-10 kgal; and 3) usage in

excess of 10 kgals is appropriate. The appropriate usage rate factors are 1.0, 1.25, and 2.0, respectively. This rate structure is designed to minimize the price increase for customers with low consumption such as retirees in the first block; the second block is designed to target working families' consumption; and the third block is designed to target consumption over 10 kgals.

We try to design rates such that customers who are at average consumption will receive a price increase approximately equal to the revenue requirement increase. A review of the effect of our approved rate structure indicates that customers at the average level of consumption will receive a price increase in their monthly bill of 50.6 percent, which is equivalent to the overall pre-repression revenue requirement increase for water.

The Utility proposed a BFC allocation of 59 percent. However, we find that the BFC shall be set at 40 percent for the residential and general service classes. We typically do not set the BFC allocation greater than 40 percent. In the past, when the customer base is seasonal, we have approved a BFC greater than 40 percent. However, in this case, the Utility's residential customer base is not seasonal. Furthermore, the approved BFC allocation allows the rates to be more conservation oriented.

Our approved rate design for the water system is shown on Table 14-1 below. The approved rates are based on a BFC allocation of 40 percent and the rate factors are all 1.0, 1.25, and 2.0. The current rate structure and alternatives 1 and 2 result in price increases at all levels of consumption.

WEDGEFIELD UTILITIES, INC. COMMISSION-APPROVED WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
Bi-Monthly BFC/ uniform kgal charge BFC =54%		3-Tier Inclining Block Rate Structure Rate Factors 1.0, 1.25 and 2.00 BFC = 40%	
BFC	\$21.12	BFC	\$23.15
All kgals	\$2.19	0-5 kgals	\$4.00
		5-10 kgals	\$5.00
		10 + kgals	\$8.01
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$21.12	0	\$23.15
1	\$23.31	1	\$27.15
3	\$27.69	3	\$35.15
5	\$32.07	5	\$43.15
10	\$43.02	10	\$68.15
20	\$64.92	20	\$148.25

Based on the foregoing, we find that the current as well as the Utility's proposed rate structure shall be changed to a three-tier inclining block rate structure with usage blocks set at: 1) 0-5 kgals; 2) 5-10 kgals; and 3) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0, 1.25, and 2.0, respectively. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage shall be set at 40 percent.

REPRESSION ADJUSTMENT

The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, demand decreases.

We conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that approximately 25 percent of the residential bills rendered during the test year were for consumption levels at or below 3 kgal per month. This does not indicate a highly seasonal customer base. Our analysis also showed that average residential monthly consumption per customer was 8.3 kgal, indicating that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this Utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases. Based on this methodology, we calculated that test year residential water sold shall be reduced by 24,729 kgals, or 16 percent. Purchased power expense shall be reduced by \$6,223, chemical expense shall be reduced by \$18,331, and regulatory assessment fees (RAFs) shall be reduced by \$1,157. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of \$3,847, shall be \$1,117,664.

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

WATER RATES

The appropriate pre-repression revenue requirement, excluding miscellaneous service charges, is \$1,143,395. As discussed above, the current as well as the Utility's proposed rate

structure shall be changed to a three-tier inclining block rate structure with usage blocks set at: a) 0-5 kgals; b) 5-10 kgals; c) usage in excess of 10 kgals, with appropriate usage block rate factors of 1.0, 1.25, and 2.0, respectively. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage shall be set at 40 percent. As discussed previously, a repression adjustment of 24,729 kgals shall be made to the water system. Applying these rate design and repression adjustments to the approved pre-repression revenues from monthly service results in the final rates contained in Schedule No. 4. These rates are designed to recover post-repression revenues for the water system of \$1,117,684.

The Utility shall file revised water tariff sheets 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until the proposed customer notice has been approved and the notice has been received by the customers. The Utility shall provide proof of the date the notice was given no less than 10 days after the date of the notice.

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

Based on the foregoing, the approved rates for monthly service for the water system are shown on Schedule 4.

MISCELLANEOUS SERVICE CHARGES

The miscellaneous service charges were approved for Wedgefield on September 23, 1996, and have not changed since that date – a period of 12 years. The Utility believes these charges should be updated to reflect current costs. We agree.

Wedgefield provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

<u>During Business Hours</u>		<u>After Hours</u>	
Item:	Cost:	Item:	Cost:
Labor (\$23.00/hr. X 0.6 hours)	\$13.80	Labor (\$23/hr. X 1.5 X 1 hour) ⁸	\$34.50
Transportation	<u>7.00</u>	Transportation	<u>7.00</u>
Total	<u>\$20.80</u>	Total	<u>\$41.50</u>

We find that Wedgefield shall be allowed to increase its water miscellaneous service charges from \$10 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in

⁸ Represents time-and-a-half wage and the longer time it takes an employee to get to the customer's property after hours.

lieu of disconnection) charge. The current and recommended water and wastewater charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$10	\$15	\$21	\$42
Normal Reconnection	\$10	\$15	\$21	\$42
Violation Reconnection	\$10	\$15	\$21	\$42
Premises Visit (in lieu of disconnection)	\$5	\$5	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Wedgefield's miscellaneous service charges have not been updated in over 12 years, and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 25 percent in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, we expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."⁹ Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. In view of the above considerations and the data provided by the Utility, we find that the Utility's requested charges are reasonable and are cost-based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. We find that the "Premises Visit In Lieu of Disconnection" charge shall be replaced with what will be called, "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, we approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's

⁹ See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

request for a complaint and the problem is found to be the customer's responsibility.¹⁰ Based on the foregoing, we find that the Premises Visit (in lieu of disconnection) shall be eliminated and the Premises Visit charge shall be approved.

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

FOUR YEAR RATE REDUCTION

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$39,678 for water. The decreased revenue will result in the rate reduction approved on Schedule No. 4.

The Utility shall be required to file revised tariff sheets 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. The rates shall not be implemented until the proposed customer notice has been approved. Wedgefield shall provide proof of the date notice was given no less than 10 days after the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

PROOF OF ADJUSTMENTS

To ensure that the Utility adjusts its books in accordance with our decisions in this matter, Wedgefield shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

If no person whose substantial interests are affected by this proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order shall be issued. The docket shall remain open for staff's verification that the revised tariff sheets and

¹⁰ See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water and wastewater rates of Wedgefield Utilities, Inc. is approved as set forth in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Wedgefield Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth herein and as approved in the body of this Order. It is further

ORDERED that Wedgefield Utilities, Inc. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that 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. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Wedgefield Utilities, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall 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. It is further

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

ORDERED that Wedgefield Utilities, Inc. shall file a proposed customer notice to reflect the approved miscellaneous service charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by Commission staff. It is further

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

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

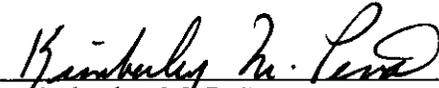
ORDERED the provisions of this Order, except for the four-year rate reduction and the requirement of proof of adjustments, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of 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." It is further

ORDERED that if no person whose substantial interests are affected by the Proposed Agency Action issues files a protest within twenty-one days of the issuance of the Order, a Consummating Order will be issued. It is further

ORDERED, in the event no protest is filed, this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, and that the refund has been completed and verified by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 22nd day of December, 2008.

ANN COLE
Commission Clerk

By: 

Kimberley M. Peña
Chief Deputy Commission Clerk

(S E A L)

CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our actions except for the four-year rate reduction and the requirement of proof of adjustments, are 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 January 12, 2009. 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.

Wedgefield Utilities Inc.			Attachment A	
Docket No: 070694-WS			Page 1 of 2	
Test Year: July 1, 2006 to June 30, 2007				
WATER TREATMENT PLANT USED AND USEFUL ANALYSIS				
1)		Firm Reliable Capacity (400 x 60 x 16)		384,000 gpd
2)		Maximum Day		881,000 gpd
3)	a)	Total Unaccounted for Water	7.54%	
	b)	Unaccounted for Water Allowance	10.00%	
	c)	Excessive Unaccounted for Water (EUW)		0 gpd
4)		Required Fire Flow (500 x 60 x 2)		60,000 gpd
5)	a)	Average Test Year Connections	1,590 ERCs	
	b)	Annual Customer Growth	16.2 ERCs	
	c)	Statutory Growth Period	5 Years	
	d)	Growth Allowance [(2\5a)x(5b)x(5c)]		44,881 gpd

(Max day – EUW + FF + Growth) / Firm Reliable Capacity

$$(881,000 - 0 + 60,000 + 44,881) / 384,000 \Rightarrow 100\% \text{ Used \& Useful}$$

Wedgefield Utilities Inc. Docket No: 070694-WS Test Year: July 1, 2006 to June 30, 2007	Attachment A Page 2 of 2
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**WATER DISTRIBUTION SYSTEM
USED AND USEFUL ANALYSIS**

1)		Capacity		1,911 ERCs
2)		Average Test Year Connections		1,590 ERCs
3)	a)	Annual Customer Growth	16.2 ERCs	
	b)	Statutory Growth Period	5 Years	
	c)	Growth Allowance		81 ERCs

$$(1,590 + 81)/1,911 = 87.4\% \text{ Used and Useful}$$

Wedgefield Utilities, Inc. Schedule of Water Rate Base Test Year Ended 6/30/2007				Schedule No. 1-A Docket No. 070694-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$3,755,562	\$3,216,180	\$6,971,742	(\$81,570)	\$6,890,172
2 Land and Land Rights	4,718	(3,964)	754	0	754
3 Non-used and Useful Components	0	(87,095)	(87,095)	0	(87,095)
4 Construction Work in Progress	91,996	(91,996)			
5 Accumulated Depreciation	(1,513,093)	25,235	(1,487,858)	21,173	(1,466,685)
6 CIAC	(1,390,449)	0	(1,390,449)	0	(1,390,449)
7 Amortization of CIAC	390,278	0	390,278	0	390,278
8 Net Debit Deferred Income Taxes	0	0	0	314,739	314,739
9 Advances for Construction	0	0	0	0	0
10 Working Capital Allowance	0	159,980	159,980	(31,899)	128,081
11 Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
12 Rate Base	<u>\$1,339,012</u>	<u>\$3,218,340</u>	<u>\$4,557,352</u>	<u>\$222,442</u>	<u>\$4,779,794</u>

Wedgefield Utilities, Inc.		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 070694-WS
Test Year Ended 6/30/2007		
Explanation	Water	
<u>Plant In Service</u>		
1 To adjust Allocated Plant per WSC Audit	46,451	
2 To adjust Plant per Audit Finding 1	<u>(128,021)</u>	
Total	<u>(81,570)</u>	
<u>Accumulated Depreciation</u>		
1 To adjust Allocated Acc Depr per WSC Audit	(12,154)	
2 To adjust Acc Depr per Audit Finding 1	<u>33,327</u>	
Total	<u>21,173</u>	
<u>Net Debit Deferred Income Taxes</u>		
To reclassify debit deferred income taxes from Cost of Capital	<u>314,739</u>	
<u>Working Capital</u>		
To adjust working capital	<u>(31,899)</u>	

Wedgefield Utilities, Inc. Capital Structure-Thirteen Month Average Test Year Ended 6/30/2007						Schedule No. 2 Docket No. 070694-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$173,636,578	\$0	\$173,636,578	(\$170,870,643)	\$2,765,935	60.69%	6.63%	4.02%	
2 Short-term Debt	5,439,769	0	5,439,769	(5,352,879)	86,890	1.91%	1.54%	0.03%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	125,643,139	0	125,643,139	(123,641,744)	2,001,395	43.92%	11.86%	5.21%	
5 Customer Deposits	24,954	0	24,954	0	24,954	0.55%	6.00%	0.03%	
6 Deferred Income Taxes	<u>(321,823)</u>	<u>0</u>	<u>(321,823)</u>	<u>0</u>	<u>(321,823)</u>	<u>-7.06%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$304,422,617</u>	<u>\$0</u>	<u>\$304,422,617</u>	<u>(\$299,865,266)</u>	<u>\$4,557,351</u>	<u>100.00%</u>		<u>9.29%</u>	
Per Commission									
8 Long-term Debt	\$173,636,578	\$0	\$173,636,578	(\$170,927,154)	\$2,709,424	56.68%	6.63%	3.76%	
9 Short-term Debt	5,439,769	0	5,439,769	(5,354,887)	84,882	1.78%	1.54%	0.03%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	125,643,139	0	125,643,139	(123,682,604)	1,960,535	41.02%	11.86%	4.86%	
12 Customer Deposits	24,954	0	24,954	0	24,954	0.52%	6.00%	0.03%	
13 Deferred Income Taxes	<u>(321,823)</u>	<u>321,823</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$304,422,617</u>	<u>\$321,823</u>	<u>\$304,744,440</u>	<u>(\$299,964,644)</u>	<u>\$4,779,796</u>	<u>100.00%</u>		<u>8.68%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.86%</u>	<u>12.86%</u>		
OVERALL RATE OF RETURN						<u>8.27%</u>	<u>9.09%</u>		

Wedgefield Utilities, Inc. Statement of Water Operations Test Year Ended 6/30/2007						Schedule No. 3-A Docket No. 070694-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$746,325</u>	<u>\$461,610</u>	<u>\$1,207,935</u>	<u>(\$446,607)</u>	<u>\$761,328</u>	<u>\$385,914</u> 50.69%	<u>\$1,147,242</u>
Operating Expenses							
2 Operation & Maintenance	\$543,807	(\$99,766)	\$444,041	(\$40,143)	\$403,898		\$403,898
3 Depreciation	98,040	7,206	105,246	(5,825)	99,421		99,421
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	200,421	(108,886)	91,535	(20,097)	71,438	17,366	88,804
6 Income Taxes	<u>46,818</u>	<u>96,516</u>	<u>143,334</u>	<u>(141,779)</u>	<u>1,555</u>	<u>138,684</u>	<u>140,239</u>
7 Total Operating Expense	<u>\$889,086</u>	<u>(\$104,930)</u>	<u>\$784,156</u>	<u>(\$207,845)</u>	<u>\$576,311</u>	<u>\$156,051</u>	<u>\$732,362</u>
8 Operating Income	<u>(\$142,761)</u>	<u>\$566,540</u>	<u>\$423,779</u>	<u>(\$238,762)</u>	<u>\$185,017</u>	<u>\$229,863</u>	<u>\$414,880</u>
9 Rate Base	<u>\$1,339,012</u>		<u>\$4,557,352</u>		<u>\$4,779,794</u>		<u>\$4,779,794</u>
10 Rate of Return	<u>-10.66%</u>		<u>9.30%</u>		<u>3.87%</u>		<u>8.68%</u>

Wedgefield Utilities, Inc.		Schedule 3-B
Adjustment to Operating Income		Docket No. 070694-WS
Test Year Ended 6/30/2007		
Explanation	Water	
<u>Operating Revenues</u>		
To remove requested final revenue increase.	<u>(446,607)</u>	
<u>Operation and Maintenance Expense</u>		
1 To adjust Chemical Cost for Decreased Usage.	(19,395)	
2 To adjust for pro forma O & M Expense.	(5,062)	
3 To adjust amortization of rate case expense.	<u>(15,686)</u>	
Total	<u>(40,143)</u>	
<u>Depreciation Expense - Net</u>		
To adjust Depreciation Expense per Audit Finding 1.	<u>(5,825)</u>	
<u>Taxes Other Than Income</u>		
RAFs on revenue adjustments above.	<u>(20,097)</u>	

Wedgefield Utilities, Inc. Water Monthly Service Rates Test Year Ended 6/30/2007			Schedule No. 4 Docket No. 070694-WS	
	Rates Prior to Filing	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
<u>Residential, General Service and Irrigation</u>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$21.12	\$36.85	\$23.15	\$0.80
3/4"	\$31.74	\$55.28	\$34.73	\$1.20
1"	\$52.92	\$92.13	\$57.88	\$2.00
1-1/2"	\$105.41	\$184.25	\$115.75	\$4.00
2"	\$169.30	\$294.80	\$185.20	\$6.41
3"	\$241.48	\$552.75	\$370.40	\$12.81
4"	\$377.34	\$921.25	\$578.75	\$20.02
6"	\$754.69	\$1,842.50	\$1,157.50	\$40.03
Gallonage Charge, per 1,000 Gallons				
Residential				
0-5,000 Gallons	\$2.19	\$3.09	\$4.00	\$0.14
5,001-10,000 Gallons	\$2.19	\$3.09	\$5.00	\$0.17
Over 10,000 Gallons	\$2.19	\$3.09	\$8.01	\$0.28
General Service				
All Gallons	\$2.19	\$3.09	\$4.97	\$0.17
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>				
3,000 Gallons	\$27.69	\$46.12	\$35.15	
5,000 Gallons	\$32.07	\$52.30	\$43.15	
10,000 Gallons	\$43.02	\$67.75	\$68.15	