

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc. | DOCKET NO. 080248-SU  
ORDER NO. PSC-09-0372-PAA-SU  
ISSUED: May 27, 2009

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 GRANTING APPLICATION FOR RATE INCREASE  
AND  
FINAL ORDER FINDING AN INTERIM REFUND IS NOT REQUIRED  
AND APPROVING FOUR-YEAR RATE REDUCTION

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 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently, UI has 4 separate rate case dockets pending before us. These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
080247-SU	Utilities Inc. of Eagle Ridge
080248-SU	Tierra Verde Utilities, Inc.
080249-WS	Labrador Utilities, Inc.
080250-SU	Mid-County Services, Inc.

Tierra Verde Utilities, Inc. (Tierra Verde or Utility) is a Class B utility providing wastewater service to approximately 1,033 customers in Pinellas County. The Utility is a wholly-owned subsidiary of UI. Tierra Verde's service area is located entirely on a barrier island

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at the mouth of Tampa Bay. All the Utility's sewage treatment service is purchased from the City of St. Petersburg. Wastewater rates were last established for Tierra Verde in its 2006 rate proceeding.<sup>1</sup>

On August 27, 2008, Tierra Verde filed its application for a rate increase. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. Tierra Verde had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 26, 2008, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2007.

Tierra Verde requested interim rates designed to generate annual wastewater revenues of \$923,677, an increase of \$142,978 or 18.31 percent. By Order No. PSC-08-0762-PCO-SU, issued November 17, 2008, we approved interim rates designed to generate annual wastewater revenues of \$903,210, an increase of \$151,404 or 20.20 percent.<sup>2</sup> The Utility requested final rates designed to generate wastewater revenues of \$1,132,684, an increase of \$351,954 or 45.08 percent.

This order addresses the revenue requirement and rates to be approved on a prospective basis. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

## DISCUSSION AND DECISION

### Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we are to determine the overall quality of service provided by evaluating the quality of the product, the operating conditions of the plant, and customer satisfaction. Tierra Verde is a wastewater collection system only, with purchased wastewater treatment provided by the City of St. Petersburg (City). Therefore, quality of the product and operating conditions of the plant are not at issue in this case.

### Customer Satisfaction

The Utility provided copies of the sixteen customer complaints received during the test year. The majority of the complaints involved a wastewater back-up or a lift station problem. The Utility dispatched a service representative in each case and resolved the problem. If the issue was not the Utility's responsibility, the customer was so informed. One customer e-mailed the Office of the Governor, and that e-mail was forwarded to us for review and response. The substance of the e-mail was to state opposition to the rate increase, noting that these are difficult times for the Utility's customers.

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<sup>1</sup> See Order No. PSC-07-0082-PAA-SU, issued January 29, 2007, in Docket No. 060255-SU, In Re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.

<sup>2</sup> See Order No. PSC-08-0762-PCO-SU, issued November 17, 2008, in Docket No. 080248-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.

We held an informal customer meeting in St. Petersburg Beach on February 26, 2009, to allow customers to provide input to us concerning the Utility's application for a rate increase. No customers attended the meeting.

After a review of the complaints in the filing, the correspondence received by us, and attendance at the customer meeting, it appears that the service provided to customers is adequate. Therefore, we find that customer satisfaction is satisfactory.

#### Quality of Service Summary

The Utility's overall quality of service is considered satisfactory. Tierra Verde has addressed customer concerns and there are no outstanding problems existing at this time. Therefore, we find that the quality of service is adequate when it comes to regulatory compliance standards.

#### Rate Base

Tierra Verde either agreed to the audit findings and adjustments in our audit report or proposed alternative adjustments to which we agrees. Those adjustments are listed below.

<b>Audit Finding</b>	<b>Wastewater</b>
No. 1 - Increase CIAC	\$25,425
No. 1 - Increase Amortization Expense (CIAC)	\$1,228
No. 1 - Increase Accumulated Amortization of CIAC	\$614
No. 2 - Decrease Accumulated Depreciation	\$75,829
No. 2 - Decrease Accumulated Amortization of CIAC	\$107,686
No. 2 - Decrease Amortization Expense (CIAC)	\$67,203
No. 2 - Decrease CIAC	\$1
No. 3 - Decrease Contractual Services – Legal	\$114
No. 3 - Decrease Rate Case Expense Adjustment	\$2,829
No. 4 - Decrease Accumulated Depreciation	\$1,517
No. 4 - Increase Accumulated Amortization of CIAC	\$1,209
No. 4 - Decrease Depreciation Expense	\$8,074
No. 4 - Increase Amortization Expense (CIAC)	\$1,209

In addition, we performed an affiliate transactions (AT) audit of UI, the parent company of Tierra Verde and its sister companies. Based on AT Audit Finding No. 5, transportation expense shall be increased by \$3,138. The aforementioned adjustments related to rate base and operating expenses are reflected on Schedules 1-B and 3-B.

#### Used and Useful

In the last three rate cases for Tierra Verde, we found the Utility's system to be 100 percent used and useful. Customer billing is performed by the City, and the used and useful determination in the last case was evaluated from the number of lots and meters rather than equivalent residential connections (ERCs). In the prior case, Order No. PSC-07-0082-PAA-SU stated that the number of meters was 1,003, and projected growth of 12 ERCs per year.

The current case shows 1,095 total lots with 986 active, occupied connections. A detailed lot identification survey was made by the Utility. The number of total annual bills was provided, which indicates growth of 1.28 percent. It appears that the number of customers in the test year is essentially the same as in the prior docket. Based upon our review of the filing and our prior orders, we find the wastewater collection system 100 percent used and useful because the collection system in place is needed to serve the current customers.

#### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. Tierra Verde properly filed its allowance for working capital using the formula method. We made adjustments to the Utility's O&M expenses. As a result, we find that Tierra Verde's working capital is \$93,285. This reflects a decrease of \$13,331 to Tierra Verde's requested working capital allowance of \$106,616.

#### Projected Rate Base

Consistent with other adjustments above, we find that the appropriate simple average rate base for the test year ending December 31, 2007, is \$1,504,479. Our approved wastewater rate bases are shown on Schedule 1-A. The adjustments are shown on Schedule 1-B.

#### Return on Common Equity

The return on equity (ROE) included in the Utility's filing is 11.7 percent. This return is based on the application of our leverage formula in effect at the time of the Utility's filing and an equity ratio of 42.59 percent. Based on the current leverage formula approved in Order No. PSC-08-0846-FOF-WS and an equity ratio of 42.59 percent, we find that the appropriate ROE is 12.34 percent.<sup>3</sup> We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

#### Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2007, we approve a weighted average cost of capital of 8.29 percent. The weighted average cost of capital included in the Utility's filing is 8.07 percent. We revised the respective cost rate for common equity. The appropriate cost rate for common equity of 12.34 percent as discussed above. Schedule No. 2 details our decision to set a weighted average cost of capital of 8.29 percent.

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<sup>3</sup> See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-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.

## NET OPERATING INCOME

### Purchased Wastewater Treatment

The Utility had approximately 14.87 percent excess infiltration and inflow (I&I) during the test year. It is an industry standard and Commission practice to allow 500 gallons per day per inch diameter pipe per mile for infiltration plus 10 percent of water sold as inflow.<sup>4</sup> Based upon data supplied by the Utility, when comparing gallons billed to wastewater customers to the amount of wastewater treated, there is 57,554,200 gallons of estimated I&I. The total allowable amount for I&I was calculated to be 27,632,117 gallons per year; therefore, excessive I&I was calculated to be 29,922,083 gallons per year, or 14.87 percent of total flows.

The City's billing for purchased wastewater was \$532,690 for the test year. Removing 14.87 percent of this cost is a disallowance of \$79,211. Further, the Utility included a proforma expense of \$33,007 for purchased wastewater due to an increase in the rate per million gallons from the City. The same removal of 14.87 percent due to excess I&I results in a reduction of \$4,908 from this proforma expense. Therefore, we find that Purchased Wastewater Treatment Expense shall be reduced by a total of \$84,119.

### Operation and Maintenance Expense

On MFR Schedule B-11, Line 1, Tierra Verde reflected \$76,452 for a major maintenance project titled "TV Sewer Mains." The amount is amortized over a five-year period resulting in \$15,290 included in the test year operation and maintenance (O&M) expenses under Materials and Supplies. In response to our data request regarding the project, the Utility indicated that it could not locate \$7,850 of supporting documentation, so the total project cost now amounts to \$68,602. The correct amount of the five-year amortization included in test year expenses should be \$13,720 ( $\$68,602 \div 5$ ). Therefore, we find that O&M expenses shall be decreased by \$1,570 ( $\$15,290$  less  $\$13,720$ ). The aforementioned adjustment is reflected on Schedule 3-B.

### Contractual Services-Other

On MFR Schedule B-8, the Utility reflected an adjusted test year amount of \$17,046 for Contractual Services-Other, which represents an increase of \$14,536 or 579.11 percent over the prior test year. Tierra Verde noted that the reason for this increase was due to "[t]emporary employment has increased the cost of other contractual services." In addition, on MFR Schedule B-8, Lines 1 through 3, the Utility reflects an increase of \$30,001 or 60.11 percent for Salaries & Wages-Employees, and \$8,983 or 77.50 percent for Employee Pensions & Benefits. Tierra Verde noted that the reason for these increases were due to "annualization, cost of living increases, and the need for additional employees."

In Commission staff's first data request, staff requested that the Utility provide support for its increase in temporary employment by indentifying each temporary position employed

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<sup>4</sup> See Order No. PSC-05-0624-PAA-WS, issued June 5, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

during the test year and providing a detail of the duties performed and the associated cost. In its response, Tierra Verde failed to provide a detail of the duties performed and the associated cost. The Utility stated that \$10,573 of the difference between the prior test year and the current test year results from an allocation adjustment to allocate costs on an ERC basis, and not a customer equivalent (CE) basis. The remaining \$6,473 is what was actually booked to the general ledger during the current test year. Tierra Verde stated that only \$2,046 (\$1,242 booked plus the debit adjustment of \$804 from the allocation adjustment) of the \$17,046 is related to temporary employment.

On April 14, 2009, the Utility submitted a memo to us wherein it provided further explanation of the costs included in the Contractual Services-Other account. In subsequent discussions with Tierra Verde, we confirmed that the Utility's adjustment of \$17,046 for the test year, except for the \$2,046 related to temporary employment, was appropriate. We find that the Utility's increase of \$2,406 for temporary employment in Contractual Services-Other for the test year, in addition to a 60 percent increase in salaries and wages, is unsupported and excessive. Therefore, we find that Contractual Services-Other shall be decreased by \$2,046. The aforementioned adjustment is reflected on Schedule 3-B.

#### Rate Case Expense

In its MFRs, Tierra Verde recorded \$26,351 for prior rate case amortization for the test year ended December 31, 2007. The authorized amount of annual rate case amortization from the prior rate case is \$23,522. To correct the overstatement, an adjustment was made to decrease the rate case expense adjustment for the previous filing by \$2,829.

In its MFRs, Tierra Verde requested total rate case expense of \$258,303. The Utility's total rate case expense included \$90,317 for prior unamortized rate case expense and \$167,986 for current rate case expense. It is our practice to remove the unamortized balance of prior rate cases from the rate case expense for the current case.<sup>5</sup> Therefore, we find that the total rate case expense shall be reduced by \$90,317.

We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount necessary to complete the case. On March 6, 2009, the Utility submitted a revised MFR Schedule B-10 reflecting actual and estimated rate case expense through completion of the PAA process of \$100,171, or, when amortized over four years, \$25,043 in annual rate case expense.

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<sup>5</sup> See Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

	MFR		Additional	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$ 45,200	\$14,487	\$15,470	\$29,957
Consultant Fees – MS&A	38,100	41,050	370	41,420
Consultant Fees – M&R	3,050	717	1,885	2,602
Consultant Fees – CPH	0	1,000	0	1,000
WSC Fees – In House	60,700	16,854	7,074	23,928
Filing Fee	3,500	0	0	0
Travel – WSC	3,200	54	0	54
Miscellaneous	12,000	246	0	246
Notices	<u>2,236</u>	<u>482</u>	<u>482</u>	<u>964</u>
Total Rate Case Expense	<u>\$167,986</u>	<u>\$74,890</u>	<u>\$25,281</u>	<u>\$100,171</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. In those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.<sup>6</sup> It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). 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 find that several adjustments are necessary to Tierra Verde's 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 from Rose, Sundstrom & Bently, LLP, a combined amount of \$825 was billed for correcting the MFR deficiencies and revising the Utility's filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>7</sup> Accordingly, we find that \$825 shall be removed from legal fees.

The second adjustment relates to the Utility's estimated legal fees for Rose, Sundstrom & Bently, LLP to complete the rate case. As of March 12, 2009, Rose, Sundstrom & Bently, LLP estimated 47.6 hours or \$15,470 (47.6 hours x \$325) to complete the rate case. On March 31, 2009, Mr. Martin Freidman of Rose Sundstom & Bently, LLP informed us that his hourly rate as

<sup>6</sup> 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 2<sup>nd</sup>, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

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

of January 1, 2009, is \$320 per hour. Accordingly, the estimated cost to complete the case shall be reduced by \$5 per hour or \$238 (47.6 hours x \$5). Of the 47.6 hours estimated to complete the case, fifteen hours is to prepare for and attend Agenda Conference and discuss the agenda with client and us. Our practice has been to allow fourteen hours to travel and attend Agenda Conference. In this case, Tierra Verde's counsel is representing another UI company, Mid-County Services, Inc., at the same Agenda Conference. Therefore, we find that the cost to attend Agenda Conference shall be shared by both utilities, and the estimated fifteen hours shall be reduced to seven for each Utility. Accordingly, legal fees shall be reduced by \$2,560 (8 x \$320). We find that the remaining 39.6 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the customer meeting, and attend to miscellaneous post-PAA matters. In total, we find that the estimated legal fees shall be reduced by an additional \$2,798 (\$238 + \$2,560).

The third adjustment relates to the Utility's estimated consultant fees for Mr. Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. As of March 12, 2009, Mr. Seidman estimated thirteen hours or \$1,885 (13 hours X \$145) to complete the rate case. Of the thirteen hours estimated, nine hours is to "assist with responses to data requests," and the remaining four hours is to prepare for and attend the Agenda Conference. At this time in the rate case process, there are no outstanding data requests that require a response. We find that the nine hours estimated to assist with responses to data requests is unreasonable. We find that four hours is a reasonable amount of time to prepare for and attend the Agenda Conference for this docket. This is consistent with the hours allowed for completion by us in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.<sup>8</sup> Therefore, we find that the consultant fees in the rate case expense shall be decreased by \$1,305 (9 hours x \$145).

The fourth adjustment relates to the actual charges to date related to Water Service Corporation (WSC) employees. Revised MFR Schedule B-10 reflecting the updated rate case expense includes hours and charges for Josephine Eblacas Ratliff and Michael A. Wilson of \$2,171 and \$455 respectively. The Utility also estimated additional charges to complete the PAA for Mr. Wilson of \$759. However, the capitalized time report and work hours log provided as support for the charges incurred to date did not include an entry for either person. Thus, Tierra Verde's requested rate case expense for WSC employees of \$23,928 shall be decreased by \$3,385 (\$2,171 + \$455 + \$759).

The fifth adjustment addresses WSC travel expenses. In its updated rate case expense, Tierra Verde included \$54 for travel. Based on several previous UI rates cases, it is our understanding that for PAA rate cases, UI does not send a representative from their Illinois office to attend the Agenda Conference. Therefore the entire amount of travel expense shall be removed. Accordingly, rate case expense shall be decreased by \$54.

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies, and other miscellaneous costs. In its updated rate case expense, the Utility reflects actual total

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<sup>8</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-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.



costs of \$246. The Utility did not provide a breakdown of these costs. 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. However, when a utility receives this authorization, it is required to reimburse us for the reasonable travel expense incurred by each of our representatives during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. We have consistently disallowed this cost in rate case expense.<sup>9</sup> We find that the requested amount of shipping costs in this rate case directly relate 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; the documents are then submitted to us. We find that the ratepayers shall not bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility; therefore, they shall bear the related costs. Therefore, we find that miscellaneous rate case expense shall be decreased by \$246.

In summary, we find that Tierra Verde's revised rate case expense of \$100,171 shall be decreased by \$8,613 for MFR deficiencies, and for unreasonable and unsupported rate case expense. The appropriate total rate case expense is \$91,558. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual &amp; Estimated</u>	<u>Commission Adjustments</u>	<u>Total</u>
Legal Fees	\$45,200	\$29,957	(3,623)	\$26,334
Consultant Fees-MS&A	38,100	41,420	0	41,420
Consultant Fees-M&R	3,050	2,602	(1,305)	1,297
Consultant Fees – CPH	0	1,000	0	1,000
WSC In-House Fees	60,700	23,928	(3,385)	20,543
Filing Fee (\$2,000 included in legal fees)	3,500	0	0	0
WSC Travel	3,200	54	(54)	0
Miscellaneous	12,000	246	(246)	0
Customer Notices & Postage	<u>2,236</u>	<u>964</u>	<u>0</u>	<u>964</u>
Total Rate Case Expense	<u>\$167,986</u>	<u>\$100,171</u>	<u>(8,613)</u>	<u>\$91,558</u>
Annual Amortization	<u>\$41,997</u>	<u>\$25,043</u>	<u>(2,153)</u>	<u>\$22,890</u>

<sup>9</sup>See 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; 2006, 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; and 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.

In its MFRs, Tierra Verde requested current rate case expense of \$167,986, which amortized over four years would be \$41,997. The current rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by the Utility and our adjustments discussed above, we approve an annual rate case expense of \$22,890. Thus, we find that rate case expense shall be reduced by \$19,107 (\$41,997 less \$22,890).

### Operating Income

This issue is subject to resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. Based on the adjustments discussed in previous issues, we find that the test year operating income before any provision for increased revenues shall be a net loss of \$54,659 for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

## REVENUE REQUIREMENT

### Revenue Requirement

This issue is a summary computation that is subject to the resolution of other issues related to rate base, and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A and is \$1,081,936, which represents an increase of \$301,207 or 38.58 percent.

## RATES AND CHARGES

### Wastewater Rates

We find that the appropriate revenue requirement is \$1,081,936. After excluding miscellaneous service charges of \$450, the approved wastewater rates are designed to produce revenue of \$1,081,486. Tierra Verde's current wastewater rate structure is a flat rate for residential customers and a base facility charge and gallonage charge for general service customers.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect our 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 25-40.475(1), F.A.C. The rates shall not be implemented until we have approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. A comparison of the Utility's original and requested rates, our approved interim rates, and our approved PAA rates are shown on Schedule No. 4.

### Interim Refund

By Order No. PSC-08-0762-PCO-SU, issued November 17, 2008, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$903,210 for wastewater, which represents an increase of \$151,806 or 20.20 percent.

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

In this proceeding, the test period for establishment of interim and final rates is the simple average ending December 31, 2007. Tierra Verde's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

Using the principles discussed above, we calculated a revised interim revenue requirement of \$1,057,517 utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Because the \$903,210 interim wastewater revenue requirement granted in Order No. PSC-08-0762-PCO-SU for the test year is less than the revised revenue requirement for the interim collection period of \$1,057,517, we find that no refund is required for wastewater revenues collected under interim rates.

### 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 shall reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for Regulatory Assessment Fees (RAFs) which is \$23,969 for wastewater. The decreased revenue shall result in the rate reduction we approved on Schedule No. 4.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect the our 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 25-40.475(1), F.A.C. The rates shall not be implemented until Commission staff approves the proposed customer notice. Tierra Verde 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 this decision, Tierra Verde shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased wastewater rates of Tierra Verde 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 Tierra Verde Utilities, Inc. shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved 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 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 Tierra Verde 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 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 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. It is further


ORDERED that Tierra Verde Utilities, Inc. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and that the interim refund has been completed and verified by Commission staff. Once these actions are complete, this docket shall be closed administratively, and the corporate undertaking shall be released.

By ORDER of the Florida Public Service Commission this 27th day of May, 2009.

ANN COLE  
Commission Clerk

By:   
Dorothy E. Manasco  
Chief Deputy Commission Clerk

(SEAL)

KY

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 shall 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 actions finding an interim refund is not required and approving a four-year rate reduction, 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 June 17, 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.

**Tierra Verde Utilities, Inc.**  
**Schedule of Wastewater Rate Base**  
**Test Year Ended 12/31/07**

**Schedule No. 1-A**  
**Docket No. 080248-SU**

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$3,901,999	\$177,075	\$4,079,074	\$0	\$4,079,074
2 Land and Land Rights	234	0	234	0	234
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(2,135,206)	(17,501)	(2,152,707)	77,346	(2,075,361)
5 CIAC	(1,687,658)	0	(1,687,658)	(25,424)	(1,713,082)
6 Amortization of CIAC	1,226,192	0	1,226,192	(105,863)	1,120,329
7 CWIP	116,722	(116,722)	0	0	0
8 Acquisition Adjustment	351,207	(351,207)	0	0	0
9 Accum. Amort. Of Acq. Adjustments	(81,247)	81,247	0	0	0
10 Working Capital Allowance	<u>0</u>	<u>106,616</u>	<u>106,616</u>	<u>(13,331)</u>	<u>93,285</u>
11 <b>Rate Base</b>	<b><u>\$1,692,243</u></b>	<b><u>(\$120,492)</u></b>	<b><u>\$1,571,751</u></b>	<b><u>(\$67,272)</u></b>	<b><u>\$1,504,479</u></b>

**Tierra Verde Utilities, Inc.**  
**Adjustments to Rate Base**  
**Test Year Ended 12/31/07**

**Schedule No. 1-B**  
**Docket No. 080248-SU**

<b>Explanation</b>	<b>Wastewater</b>
<u>Accumulated Depreciation</u>	
1 To reflect appropriate adjustment from prior rate case (AF No. 2)	\$75,829
2 To adjust for use of incorrect depreciation rates (AF No. 4)	<u>1,517</u>
Total	<u>\$77,346</u>
<u>CIAC</u>	
1 To adjust for CIAC not included in MFRs (AF No. 1)	(\$25,425)
2 To reflect appropriate adjustment from prior rate case (AF No. 2)	<u>1</u>
Total	<u>(\$25,424)</u>
<u>Accumulated Amortization of CIAC</u>	
1 To reflect adjustment for CIAC not included in MFRs (AF No. 1)	\$614
2 To reflect appropriate adjustment from prior rate case (AF No. 2)	(107,686)
3 To reflect adjustment for use of incorrect depreciation rates (AF No. 4)	<u>1,209</u>
Total	<u>(\$105,863)</u>
<u>Working Capital</u>	
To reflect Commission's recalculation of working capital	<u>(\$13,331)</u>



**Tierra Verde Utilities, Inc.**  
**Capital Structure-Simple Average**  
**Test Year Ended 12/31/07**

**Schedule No. 2**  
**Docket No. 080248-SU**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,197,989)	\$802,011	51.03%	6.65%	3.39%	
2 Short-term Debt	7,750,000	0	7,750,000	(7,715,466)	34,534	2.20%	2.44%	0.05%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	139,282,132	0	139,282,132	(138,661,535)	620,597	39.48%	11.70%	4.62%	
5 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	<u>114,609</u>	<u>0</u>	<u>114,609</u>	<u>0</u>	<u>114,609</u>	<u>7.29%</u>	0.00%	<u>0.00%</u>	
7 <b>Total Capital</b>	<u>\$327,146,741</u>	<u>\$0</u>	<u>\$327,146,741</u>	<u>(\$325,574,990)</u>	<u>\$1,571,751</u>	<u>100.00%</u>		<u>8.07%</u>	
<b>Per Commission</b>									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,235,008)	\$764,992	50.85%	6.65%	3.38%	
9 Short-term Debt	7,750,000	0	7,750,000	(7,717,063)	32,937	2.19%	2.44%	0.05%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	139,282,132	0	139,282,132	(138,690,189)	591,943	38.34%	12.34%	4.86%	
12 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
13 Deferred Income Taxes	<u>114,609</u>	<u>0</u>	<u>114,609</u>	<u>0</u>	<u>114,609</u>	<u>7.62%</u>	0.00%	<u>0.00%</u>	
14 <b>Total Capital</b>	<u>\$327,146,741</u>	<u>\$0</u>	<u>\$327,146,741</u>	<u>(\$325,642,261)</u>	<u>\$1,504,480</u>	<u>100.00%</u>		<u>8.29%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>11.34%</u>	<u>13.34%</u>		
OVERALL RATE OF RETURN						<u>7.90%</u>	<u>8.69%</u>		

Tierra Verde Utilities, Inc.  
Statement of Wastewater Operations  
Test Year Ended 12/31/07

Schedule No. 3-A  
Docket No. 080248-SU

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 <b>Operating Revenues:</b>	<u>\$690,922</u>	<u>\$441,761</u>	<u>\$1,132,68</u>	<u>(\$351,954)</u>	<u>\$780,729</u>	<u>\$301,207</u> 38.58%	<u>\$1,081,936</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$645,324	\$207,606	\$852,930	(106,647)	\$746,283		\$746,283
3 Depreciation	14,180	34,614	48,794	59,110	107,904		107,904
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than	35,338	25,189	60,527	(15,170)	45,357	13,554	58,911
6 Income Taxes	<u>(43,791)</u>	<u>87,541</u>	<u>43,750</u>	<u>(107,906)</u>	<u>(64,156)</u>	<u>108,244</u>	<u>44,088</u>
7 <b>Total Operating Expense</b>	<u>\$651,051</u>	<u>\$354,950</u>	<u>\$1,006,00</u>	<u>(\$170,613)</u>	<u>\$835,388</u>	<u>\$121,798</u>	<u>\$957,186</u>
8 <b>Operating Income</b>	<u>\$39,871</u>	<u>\$86,811</u>	<u>\$126,682</u>	<u>(\$181,341)</u>	<u>(\$54,659)</u>	<u>\$179,409</u>	<u>\$124,749</u>
9 <b>Rate Base</b>	<u>\$1,692,243</u>		<u>\$1,571,75</u>		<u>\$1,504,479</u>		<u>\$1,504,479</u>
1 <b>Rate of Return</b>	<u>2.36%</u>		<u>8.06%</u>		<u>-3.63%</u>		<u>8.29%</u>

**Tierra Verde Utilities, Inc.**  
**Adjustment to Operating Income**  
**Test Year Ended 12/31/07**

**Schedule 3-B**  
**Docket No. 080248-SU**

Explanation	Wastewater
<u>Operating Revenues</u>	
Remove requested final revenue increase	<u>(\$351,954)</u>
<u>Operation and Maintenance Expense</u>	
1 To reduce Contractual Services - Legal (AF No. 3)	(\$114)
2 To reflect the appropriate adjustment to prior rate case expense (AF No. 3)	(2,829)
3 To reflect adjustment to Transportation Expense (Allocation AF No. 5)	3,138
4 To reduce Purchased Sewer Treatment Expense due to I&I	(84,119)
5 To reflect the appropriate amount of expense for TV Sewer Mains project	(1,570)
6 To remove unsupported temporary employment in Contractual Services - Other	(2,046)
7 To reflect the appropriate amount of rate case expense	<u>(19,107)</u>
Total	<u>(\$106,647)</u>
<u>Depreciation Expense - Net</u>	
1 To reflect the appropriate amount of amortization expense for CIAC (AF No. 1 )	(\$1,228)
2 To reflect the appropriate depreciation rates (AF No. 4)	(8,074)
3 To reflect the appropriate amount of amortization expense for CIAC (AF No. 2 )	67,203
4 To reflect the appropriate amount of amortization expense for CIAC (AF No. 4 )	<u>1,209</u>
Total	<u>(\$59,110)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above	(\$15,838)
2 To reflect appropriate amount of RAFs in test year (AF No. 4)	3,251
3 To reflect appropriate amount of property tax in test year (AF No. 4)	<u>(2,583)</u>
Total	<u>(\$15,170)</u>

<b>Tierra Verde Utilities, Inc.</b>		<b>Schedule No. 4</b>			
<b>Wastewater Bi-Monthly Service Rates</b>		<b>Docket No. 080248-SU</b>			
<b>Test Year Ended 12/31/07</b>					
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Commission Approved Final</b>	<b>Four-year Rate Reduction</b>
<b><u>Residential Flat Rate</u></b>	\$74.23	\$86.90	\$107.69	\$102.44	\$2.27
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$48.28	\$56.25	\$70.04	\$65.35	\$1.45
1"	\$120.71	\$140.64	\$175.13	\$163.38	\$3.62
1-1/2"	\$241.40	\$281.26	\$350.22	\$326.76	\$7.24
2"	\$386.24	\$450.01	\$560.36	\$522.82	\$11.58
3"	\$772.48	\$900.01	\$1,120.71	\$1,045.64	\$23.16
4"	\$1,207.00	\$1,406.28	\$1,751.12	\$1,633.81	\$36.19
6"	\$2,414.00	\$2,812.55	\$3,502.23	\$3,267.63	\$72.39
Gallonge Charge, per 1,000 Gallons	\$2.37	\$2.76	\$3.44	\$3.41	\$0.08
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$74.23	\$86.90	\$107.69	\$102.44	
5,000 Gallons	\$74.23	\$86.90	\$107.69	\$102.44	
10,000 Gallons	\$74.23	\$86.90	\$107.69	\$102.44	
(Wastewater Gallonge Cap - 10,000 Gallons)					