

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc. | DOCKET NO. 090121-SU
ORDER NO. PSC-09-0651-PAA-SU
ISSUED: September 28, 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 APPROVING RATE INCREASE
AND
FINAL ORDER APPROVING RATE REDUCTION IN FOUR YEARS AND GRANTING
TEMPORARY RATES IN THE EVENT OF A PROTEST

BY THE COMMISSION:

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

BACKGROUND

Alafaya Utilities, Inc. (Alafaya or utility) is a Class A wastewater utility located in Seminole County serving approximately 7,523 residential customers and 1,200 reuse customers. The utility's 2008 annual report reflects wastewater revenues of \$3,791,018. The utility's last rate proceeding was in 2006.¹ Alafaya's wastewater rates were last adjusted on February 8, 2009, as a result of a Price Index and Pass-Through Application, filed pursuant to Section 367.081(4)(a)and(b), Florida Statutes (F.S.).

On March 12, 2009, the utility filed its application for a limited proceeding pursuant to Section 367.0822, F.S. Alafaya has filed for a limited proceeding in order to recover the costs of an upgrade and expansion of the utility's reclaimed water infrastructure, including extension of a main and necessary system enhancements, to recover digester costs exceeding those included in the utility's last rate case, and to recover the cost of the utility's modernization of its information,

¹ See Order No. PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for rate increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

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customer service, and computer systems. We have determined that Alafaya met the filing requirements of Rule 25-30.445, Florida Administrative Code F.A.C.

A customer meeting was held in the utility's service area on May 27, 2009. Fifteen customers attended the meeting and ten customers spoke. Several customers expressed concern over the lack of reuse water and the lack of water pressure when reuse water is available. The utility's customers also complained of unsatisfactory customer service.

We have jurisdiction over this rate proceeding pursuant to Section 367.0822, F.S.

DECISION

In its application, Alafaya requested a \$1,083,706 or 28.07 percent increase in its wastewater rates. Alafaya's proposed increase consists of additions to rate base for the cost of upgrading and expanding its reclaimed water infrastructure, including extension of a main and system enhancements, digester costs exceeding those included in Alafaya's last rate case, and the costs incurred by the utility for modernization of its information, customer service, and computer systems. The adjustments to operating expenses include depreciation expense, amortization expense, rate case expense, taxes other than income (TOTI), and income taxes. Alafaya's revenue increase is comprised of a return on rate base items, plus the increase in operating expenses, grossed-up for taxes. We have reviewed the application as well as supporting documentation. Based on our review, we approve an increase in wastewater revenues for Alafaya that shall be implemented in two phases. The phase one increase shall be \$654,085, or 17.51 percent, and the phase two increase shall be \$307,070 or 6.99 percent. Items included in the determination of the revenue increase are discussed below.

Plant Increases

In its filing, Alafaya included increases in plant of \$1,548,779 for a 1.5 million gallon ground storage tank, \$751,384 for a county road reuse main extension, \$2,374,766 for a new Equalization Tank (EQ tank), \$490,394 to replace a digester (net of retirements) that was not included in the utility's last rate case, and \$529,732 for the modernization of its information, customer service, and computer services. The total increase in utility plant in service for the items described above is \$5,695,055. In its filing, Alafaya estimated that the completion date for the new EQ tank will be March 31, 2010. Thereafter, in response to our staff's data request, Alafaya stated that a second quarter completion date in 2010 was a preferable target for the EQ tank. According to Section 367.081, F.S., we shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless we approve a longer period. We find that it is appropriate to remove the \$2,374,766 investment in the EQ tank from the total increase in plant of \$5,695,055. We also find that it is appropriate, as stated above, to implement the resulting revenue requirement in two phases. The first phase shall include plant increases, excluding the EQ tank, of \$3,320,289, and the second phase shall be based on the new EQ tank plant investment of \$2,374,766. The increase in rates resulting

from the construction of the new EQ tank shall not be implemented until it is completed and operational.

Used and Useful

Alafaya did not make a used and useful (U&U) determination for this filing. Section 367.081(3), F.S., provides that all prudent costs of a reuse project shall be recovered in rates. Alafaya's last U&U determination was made in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc. By Order No. PSC-07-0130-SC-SU, issued February 15, 2007, we found that Alafaya's wastewater treatment plant (Account 380.4) was 94 percent U&U. Consistent with our previous decision, we will apply the same 94 percent to the plant increases included in Account 380.4 for this docket to determine the appropriate U&U amount. The utility's increase in plant for this filing includes additions to Account 380.4 in the amount of \$490,394 for digester replacement equipment, with a related accumulated depreciation adjustment of \$572,214, for a total increase to rate base of \$1,062,608. We find that a non-U&U adjustment of 6 percent, or \$63,756, is appropriate for the determination of the revenue requirement for phase one. For phase two, the non-U&U adjustment shall be 6 percent of the \$2,364,236 net plant investment in the new EQ tank, or \$141,854.

Working Capital

Alafaya included an adjustment for an increase in cash working capital of \$16,745 in its filing. The utility included an increase in rate case expense of \$22,064 and an increase in TOTI of \$111,893. Alafaya computed one eighth of the total of \$133,957 for the items described above, or \$16,745, to determine the increase in working capital. Alafaya is a Class A utility and should be computing working capital based on the balance sheet approach. It is our practice to include half of the approved amount of rate case expense in the working capital calculation for Class A wastewater utilities.² As discussed below we have approved total rate case expense of \$30,290 in this case. Consistent with our practice, we will allow \$15,145 in the working capital calculation, which is half our approved amount of rate case expense.

Cost of Capital

In its filing, Alafaya used a weighted cost of capital consisting of Alafaya's parent company, Utilities, Inc.'s (UI's) total common equity of \$158,372,419 with a cost rate of 11.46 percent, and long-term debt of \$180,000,000 with a cost rate of 6.60 percent at December 31, 2007. According to our Rule 25-30.445(4)(e), F.A.C., a calculation of the weighted average cost of capital shall be provided for the most recent 12-month period, using the mid-point of the range of the last authorized rate of return on equity, the current embedded cost of fixed-rate capital, the

² See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company, 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.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

actual cost of short-term debt, the actual cost of variable-cost debt, and the actual cost of other sources of capital that were used in the last individual rate proceeding of the utility. The return on equity of 11.46 percent is based on the leverage formula approved in Order No. PSC-06-0476-PAA-WS,³ and was used in the utility's last rate proceeding. The utility's last proceeding also included balances for short-term debt and customer deposits in the cost of capital calculation. Alafaya did not include any amounts in this filing for short-term debt or customer deposits. The annual reports for 2007 and 2008 included additional components of short-term debt and customer deposits in its cost of capital schedules. While UI's amounts for common equity and long-term debt have remained relatively consistent from 2007 to 2008, the amount for short-term debt has increased dramatically from \$15,500,000 at the end of 2007 to \$49,775,000 at the end of 2008, at a reported cost rate of 3.75 percent. We find that it is appropriate to include the 2008 short-term debt amount of \$49,775,000 in determining the cost of capital for Alafaya and the 2008 customer deposit amount of \$104,582 at a cost rate of 6.00 percent. The adjustments described above result in an overall cost of capital of 7.96 percent for phase one and 8.17 percent for phase two.

Depreciation Expense

Alafaya included additional annual depreciation expense related to the limited proceeding plant additions in its revenue requirement determination in the amount of \$256,226. As discussed above, we have removed the EQ plant investment in the amount of \$2,374,766, which includes engineering costs of \$81,234 for phase one. Alafaya included depreciation expense of \$4,513 related to the engineering cost but did not include any depreciation expense related to the remaining EQ tank investment of \$2,293,532, since the completion date was estimated to be March 31, 2010. We shall exclude the depreciation expense of \$4,513 in the phase one calculation of revenue requirements related to the EQ tank engineering cost, to be consistent with excluding the investment. We shall include \$4,242 in depreciation expense in determining the phase two revenue requirement, which is the \$4,513 amount less a 6 percent non-U&U adjustment of \$271. The utility included a decrease in depreciation expense related to the retirement of digester equipment in the amount of \$46,365. We shall adjust the \$46,365 by \$4,358 to reflect the non-U&U portion, which results in an adjusted depreciation decrease due to retirements of \$43,583.

Rate Case Expense

The utility included in its filing an estimate of \$88,259 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 4, 2009, the utility submitted a revised rate case expense estimate through completion of the PAA process of \$88,326. The components of the estimated rate case expense are as follows:

³ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-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.S.

	MFR		Additional	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Legal	\$15,375	\$424	\$15,018	\$15,442
WSC In-house Fees	60,808	3,165	57,643	60,808
Filing Fee	2,250	2,250	0	2,250
Travel - WSC	2,600	70	2,530	2,600
Miscellaneous	500	0	500	500
Notices	<u>6,726</u>	<u>0</u>	<u>6,726</u>	<u>6,726</u>
Total Rate Case Expense	<u>\$88,259</u>	<u>\$5,909</u>	<u>\$82,417</u>	<u>\$88,326</u>

We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above. Based on our review, we find that several adjustments are necessary.

We have reviewed the 1,461 hours and \$57,643 of estimated costs to complete this case by Water Service Corporation (WSC) employees. As of April 16, 2009, WSC had 74 actual hours worked at a cost of \$3,165, which when added to the \$57,643 results in a combined actual and estimated to complete cost for WSC employees of \$60,808. Alafaya asserts that additional hours are required to respond to data requests, to assist with the limited proceeding, and audit facilitation. However, Alafaya failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. By applying the individual employee rates and the average number of hours worked by WSC employees,⁴ we determined that the estimated WSC fees to complete the case are unreasonable. Therefore, we shall decrease the WSC estimated costs to complete this case by \$55,006, which results in total costs for WSC employees of \$5,802 to be included in rate case expense.

The second adjustment addresses WSC's travel expenses. In its MFRs, Alafaya estimated \$2,600 for travel. WSC's actual travel expenses to date are \$70. Based on several previous UI rate cases, we note that for Limited Proceeding rate cases UI does not send a representative from its Illinois office to attend our Agenda Conference. Therefore, we find that the entire remaining amount of estimated travel expense shall be removed from rate case expense. Accordingly, rate case expense shall be decreased by \$2,530.

The third adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies, and other miscellaneous costs. In its filing, the utility estimated \$500 for these items. The utility provided no breakdown or support for the \$500. We are also concerned with the amount of requested costs for FedEx expense. UI has requested and received our authorization to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. When a utility receives this authorization, it is required to reimburse us for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In

⁴ This methodology has been approved in other recent cases for Alafaya's sister companies. See Order Nos. PSC-09-0373-PAA-SU, issued May 27, 2009, in Docket No. 080250-SU, In re: Application for Increase in Wastewater Rates in Pinellas County by Mid-County Services, Inc. and PSC-09-0642-WS, issued June 22, 2009, in Docket No. 080248-SU, In re: Application for Increase in Water and Wastewater Rates in Pinellas County by Tierra Verde Utilities, Inc.

Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.⁵, the utility requested recovery of the actual travel costs it paid for our staff 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.⁶ 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, which subsequently submits them to us. The utility's ratepayers shall not have to bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and they shall bear the related costs. Accordingly, we shall decrease miscellaneous rate case expense by \$500.

In summary, we have found it appropriate to decrease Alafaya's revised rate case expense by \$58,036 for unsupported and unreasonable rate case expense.

The appropriate total rate case expense is \$30,290. A breakdown of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Commission Adjustments	Total
Legal	\$15,375	\$15,442	\$0	\$15,442
WSC In-house Fees	60,808	60,808	(55,006)	5,802
Filing Fee	2,250	2,250	0	2,250
Travel - WSC	2,600	2,600	(2,530)	70
Miscellaneous	500	500	(500)	0
Notices	<u>6,726</u>	<u>6,726</u>	<u>0</u>	<u>6,726</u>
Total Rate Case Expense	<u>\$88,259</u>	<u>\$88,326</u>	<u>(\$58,036)</u>	<u>\$30,290</u>
Annual Amortization	<u>\$22,065</u>	<u>\$22,081</u>	<u>(\$14,508)</u>	<u>\$7,573</u>

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. In its MFRs, Alafaya requested total rate case expense of \$88,259, which amortized over four years would be \$22,065. Based on the data provided by Alafaya and our adjustments discussed above, we find that annual rate case expense shall be \$7,573, which is a decrease of \$14,492.

⁵ Order No. PSC-93-1713-FOF-SU, issued November 30, 1993.

⁶ 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; and Order No. 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.

The utility's requests and our calculations are reflected in the following table:

<u>Increase in Rate Base and Rate of Return</u>	<u>Company Requested</u>	<u>Comm. Calculated Phase I</u>	<u>Comm. Calculated Phase II</u>
Increase in plant	\$5,979,988	\$3,605,222	\$2,374,766
Retirement of old equipment	(284,933)	(284,933)	
Accumulated Depreciation Non Used and Useful	286,163	296,693	(10,530)
CIAC	(280,000)	(280,000)	(141,854)
Accumulated Amortization of CIAC	18,288	18,288	
Cash Working Capital	<u>16,745</u>	<u>15,145</u>	
Total increase in rate base	\$5,736,251	\$3,306,659	\$2,222,382
Weighted Cost of Capital	8.88%	7.96%	8.18%
Rate of Return Required	\$509,183	\$263,216	\$181,692
<u>Increase in Operating Expenses and Other Taxes</u>			
Increase in depreciation expense – plant improvements	\$256,226	\$244,143	\$4,242
Decrease in depreciation expense – retirements	(46,365)	(43,583)	
Increase in CIAC amortization	(7,568)	(7,568)	
Amortization of rate case expense	22,064	7,573	
Increase in TOTI	<u>111,893</u>	<u>63,089</u>	<u>39,541</u>
Total increase in operating expenses and TOTI	\$336,250	\$263,654	\$43,783
Total Taxable Income	\$509,183	\$263,216	\$181,692
Multiply by State Income Tax (5.5 percent)	28,005	14,477	9,993
Total Federal Taxable Income	481,178	248,740	171,699
Multiply by Federal Income Tax (34 percent)	<u>163,601</u>	<u>84,571</u>	<u>58,378</u>
Total Revenue Increase Before RAFs	\$1,037,039	\$625,918	\$293,846
Multiply by RAF (4.5 percent)	<u>46,667</u>	<u>28,166</u>	<u>13,223</u>
Total Revenue increase	<u>\$1,083,706</u>	<u>\$654,085</u>	<u>\$307,070</u>

Rates

The rates we approve in this proceeding are designed to allow Alafaya the opportunity to generate additional revenues of \$654,085 for wastewater service for phase one and \$307,070 for phase two. As shown on Schedules 2 and 3, we have approved a change in the utility's reuse rate structure and rates.

Many of the customer complaints raised at the May customer meeting concerned the lack of reuse water and reuse water pressure. Alafaya has explored ways to alleviate this problem. First, as discussed above, Alafaya has installed a 1.5 million gallon ground storage tank to address reuse outage and pressure complaints. Second, Alafaya applied for a Consumptive Use

Permit for augmentation wells to address the pressure and reuse complaints. The utility later withdrew its application due to lack of St. Johns River Water Management District (SJRWMD) staff support. According to its data request response, Alafaya stated that the SJRWMD staff indicated that groundwater withdrawals should not be permitted until all other alternative water sources were considered and confirmed to be unavailable. On May 18, 2009, Alafaya met with the City of Oviedo (City) to discuss the City's renewed interest in making available a portion of its allocation of Iron Bridge reuse water. The utility and the City agreed to continue discussions regarding the development of a bulk reuse agreement between the parties.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by this Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. In setting reuse rates, the type of customer being served must be considered. Also, it is important to balance the disposal needs of the utility with the consumption needs of the customer. In cases where a utility has excess reuse capacity, rates typically should be set lower to encourage customers to use reuse at a level sufficient to meet the utility's disposal need. In cases where a utility's reuse capacity is unable to meet demand, rates should be set higher or the rate structure should be changed to promote conservation. In this case, Alafaya is able to meet its disposal needs. In fact, Alafaya's reuse capacity is unable to meet demand.

Presently, the City does not have the infrastructure in place to provide reuse service to Alafaya's customers. As such, the only alternative irrigation source now available to Alafaya's customers is the City's potable water service. As shown on Schedule 1, Alafaya's residential reuse base facility charge is \$3.70 with a gallonage charge of \$0.39 per 1,000 gallons for residential and \$0.64 for general service. We find it appropriate to adopt a rate structure for reuse similar to the City's five-tier potable water rate structure with rates at 55 percent of the City's water gallonage rates and 50 percent of the monthly base charge for residential. We also approve an increase of 40 percent for the utility's existing reuse general service gallonage charge. As shown on Schedule 2, the recommended changes result in the following rates and rate structure for phase one residential wastewater and reuse rates:

Residential Wastewater

Monthly Base Charge	\$23.32
Gallonage Charge	\$3.11 per 1,000 gallons

General Service Water

Base Facility Charges

5/8" x 3/4"	\$23.32
1"	\$58.32
1-1/2"	\$116.64
2"	\$186.61
3"	\$373.23
4"	\$583.17
Gallonage Charge	\$3.72 per 1,000 gallons

Residential Reuse

Monthly Base Charge	\$5.01
0 - 10,000 gallons	\$0.46 per 1,000 gallons
10,001 – 20,000 gallons	\$1.02 per 1,000 gallons
20,001 -30,000 gallons	\$1.91 per 1,000 gallons
30,001 – 40,000 gallons	\$2.73 per 1,000 gallons
Over 40,000 gallons	\$3.20 per 1,000 gallons

General Service Reuse

Gallonage Charge	\$0.90 per 1,000 gallons
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The new reuse rates shown above are designed to encourage the reuse customer to conserve water and therefore increase the availability of reclaimed water for all of Alafaya's reuse customers. Currently, Alafaya has limited options to increase its reclaimed water supply. Augmentation wells are currently not an option. The reuse rates we have approved will continue to be less than the City's potable water and reuse rates (see Schedule 1), but will be high enough to encourage conservation. At 10,000 gallons, a typical residential reuse bill for phase one would be \$9.58 and \$10.24 for phase two. The City's potable water bill would be \$25.46 at the 10,000 gallon level.

Alafaya shall be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates 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 our staff. Within 10 days of the date this Order is final, Alafaya shall be required to provide notice of the tariff changes to all customers. Alafaya shall provide proof the customers have received notice within 10 days after the date that the notice was sent.

Alafaya shall not implement phase two rates until the construction of an Equalization Tank has been completed and approved by DEP. The utility shall provide staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility shall also file revised tariff sheets and a proposed customer notice to reflect the rates we have approved herein. The approved rates shall be effective for service rendered on

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

Four Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for regulatory assessment fees, which is \$8,717. The decreased revenue will result in the rate reduction approved as noted on Schedule No. 2.

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 our staff has approved the proposed customer notice. Alafaya 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.

Temporary Charges

In this proceeding we have approved an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a substantially affected person, we approve the new rates we have established herein as temporary rates. Those rates collected by the utility shall be subject to the refund provisions discussed below.

Alafaya is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. UI has requested an incremental increase in its corporate undertaking in the amount of \$436,419. The current cumulative corporate undertaking amount outstanding for other UI systems is \$75,165. The new request would bring the cumulative amount outstanding to \$511,584. The following tables list the new request, the other amount(s) outstanding, and the proposed cumulative corporate undertaking amount outstanding for UI.

New Request for Corporate Undertaking

UI System	Corp. Undertaking Amount	Docket No.
Alafaya Utilities, Inc.	\$436,419	090121-SU

Current Corporate Undertaking Amount(s) Outstanding

UI System	Corp. Undertaking Amount	Docket No.
Labrador Utilities, Inc.	\$75,165	080249-WS
Proposed Cumulative Total	\$511,584	

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We reviewed the financial statements of the parent company to determine if UI can support a corporate undertaking on behalf of its subsidiaries. We used UI's 2006, 2007 and 2008 financial statements to determine the financial condition of the Company. Net income has been on average three times greater than the requested cumulative corporate undertaking amount over the three year period. However, UI experienced a net loss in 2008. UI has also experienced a steady decline in its interest coverage ratio and relative level of net income over the three year review period. In addition, UI's average equity ratio has decreased to 40.7 percent in 2008 from 44.8 percent in 2007.

UI does not have adequate liquidity, profitability, and interest coverage to support a corporate undertaking in the amount requested. While the existing corporate undertaking amount of \$75,165, secured on behalf of Labrador Utilities is still appropriate, the incremental increase in funds subject to refund in the amount of \$436,419 shall be secured. UI shall secure a surety bond, letter of credit, or escrow agreement to guarantee any new monies collected subject to refund. Alternatively, Alafaya could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, Alafaya. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Alafaya shall maintain a record of the amount of the corporate undertaking, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility shall file reports with our Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Alafaya Utilities, Inc.'s application for general rate increase in its wastewater system in Seminole County is hereby approved as set forth in the body of this Order. It is further

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

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

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

ORDERED that Alafaya Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the rates we have approved. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the wastewater rates shall be reduced, as shown on Schedule No. 2, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If 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 rates due to the amortized rate case expense. 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, Florida Statutes. It is further

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

ORDERED that 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 staff. Once these

actions are complete, in the event that this Order becomes final, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 28th day of September, 2009.



ANN COLE
Commission Clerk

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the four year statutory rate reduction and the approval of temporary rates in the event of a protest, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 19, 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.

Alafaya Utilities, Inc.
 Comparison of Alafaya Residential Reuse Rates and City of Oviedo Reuse and Water Rates

Schedule No. 1

	<u>Alafaya Current Reuse Rates</u>	<u>City of Oviedo Current Reuse Rates</u>	<u>City of Oviedo Current Water Rates</u>	<u>Phase One Comm. Approved Reuse Rates</u>	<u>Phase Two Comm. Approved Reuse Rates</u>
<u>Alafaya's Reuse Rates</u>					
All Meters	\$3.70				
Gallage Charge per 1,000 Gallons	\$0.39				
<u>City of Oviedo Reuse Rates</u>					
Monthly Base Charge		\$9.18			
<u>Reuse Gallage</u>					
Charge per 1,000 Gallons					
0-10,000 gallons		\$1.09			
10,001-20,000 gallons		\$1.63			
Over 20,000 gallons		\$3.26			
<u>City of Oviedo Water Rates</u>					
Monthly Base Charge			\$10.02		
<u>Gallage Charge</u>					
Charge per 1,000 Gallons					
0-3,000 gallons			\$0.83		
3,001-10,000 gallons			\$1.85		
10,001-15,000 gallons			\$3.48		
15,001-30,000 gallons			\$4.96		
Over 30,000 gallons			\$5.82		
<u>Commission approved Reuse Rates</u>					
Monthly Base Charge				\$5.01	\$5.36
<u>Gallage Charge</u>					
Charge per 1,000 Gallons					
0-10,000 gallons				\$0.46	\$0.49
10,001-20,000 gallons				\$1.02	\$1.05
20,001 – 30,000 gallons				\$1.91	\$2.05
30,001 - 40,000 gallons				\$2.73	\$2.92
Over 40,000 gallons				\$3.30	\$3.42
<u>Typical Residential Reuse Bill</u>					
10,000 Gallons	\$7.60	\$20.08	\$25.46	\$ 9.58	\$10.24
20,000 Gallons	\$11.50	\$36.38	\$67.66	\$19.75	\$21.13
30,000 Gallons	\$15.40	\$68.98	\$117.26	\$38.89	\$41.61
40,000 Gallons	\$19.30	\$101.58	\$175.46	\$66.17	\$70.80

Alafaya Utilities, Inc.
Phase One Monthly Service Rates

Schedule No. 2

	<u>Present Rates</u>	<u>Comm. Approved Increase</u>	<u>Comm. Approved Rates</u>	<u>Four-Year Rate Reduction</u>
<u>Residential Base Facility Charge</u>				
5/8 x 3/4"	\$21.65	\$1.67	\$23.32	\$0.31
Gallonge Charges per 1,000 Gallons	\$2.89	\$0.22	\$ 3.11	\$0.04
<u>General Service</u>				
Base Facility Charges				
5/8 x 3/4"	\$21.65	\$1.67	\$23.32	\$0.31
1"	\$54.14	\$4.18	\$58.32	\$0.78
1-1/2"	\$108.29	\$8.35	\$116.64	\$1.55
2"	\$173.35	\$13.36	\$186.61	\$2.49
3"	\$346.50	\$26.73	\$373.23	\$4.97
4"	\$541.41	\$41.76	\$583.17	\$7.77
Gallonge charge per 1,000 gallons	\$3.45	\$0.27	\$3.72	\$0.05
Residential Reuse BFC	\$3.70	\$1.31	\$5.01	\$0.07
Residential Reuse Gallonge				
Charge per 1,000 Gallons	\$0.39			
0-10,000 gallons		\$0.07	\$0.46	\$0.01
10,001 - 20,000 gallons		\$0.63	\$1.02	\$0.01
20,001 - 30,000 gallons		\$1.52	\$1.91	\$0.03
30,000 – 40,000 gallons		\$2.34	\$2.73	\$0.03
Over 40,000 gallons		\$2.81	\$3.20	\$0.04
Reuse General Service Charge Per 1,000 Gallons	\$0.64	\$0.26	\$0.90	\$0.01
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>				
3,000 Gallons	\$30.32		\$32.66	
5,000 Gallons	\$36.10		\$38.88	
10,000 Gallons	\$50.55		\$54.45	

Alafaya Utilities, Inc.
Phase Two Monthly Service Rates

Schedule No. 3

	<u>Phase One Rates</u>	<u>Comm. Approved Increase</u>	<u>Comm. Approved Rates</u>
<u>Residential Base Facility Charge</u>			
5/8 x 3/4"	\$23.32	\$1.63	\$24.95
Gallage Charges per 1,000 Gallons	\$3.11	\$0.22	\$ 3.33
<u>General Service</u>			
Base Facility Charges			
5/8 x 3/4"	\$23.32	\$1.63	\$24.95
1"	\$58.32	\$4.08	\$62.40
1-1/2"	\$116.64	\$8.16	\$124.80
2"	\$186.61	\$13.05	\$199.67
3"	\$373.23	\$26.10	\$399.33
4"	\$583.17	\$40.79	\$623.96
Gallage charge per 1,000 gallons	\$3.72	\$0.26	\$3.98
Residential Reuse BFC	\$5.01	\$0.35	\$5.36
Residential Reuse Gallage Charge per 1,000 Gallons			
0-10,000 gallons	\$0.46	\$0.03	\$0.49
10,001-20,000 gallons	\$1.02	\$0.07	\$1.09
20,001- 30,000 gallons	\$1.91	\$0.13	\$2.05
30,001 - 40,000 gallons	\$2.73	\$0.19	\$2.92
Over 40,000 gallons	\$3.20	\$0.22	\$3.42
Reuse General Service Charge Per 1,000 Gallons	\$0.90	\$0.06	\$0.96
	<u>Typical Residential Bills 5/8" x 3/4" Meter</u>		
3,000 Gallons	\$32.66		\$34.94
5,000 Gallons	\$38.88		\$41.60
10,000 Gallons	\$54.45		\$58.26