

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

**DATE:** February 18, 2010

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Stallcup, Lingo)  
Office of the General Counsel (Young) *FL Y O W*  
*KL SB*

**RE:** Docket No. 080295-WS – Request by Sun Communities Finance, LLC d/b/a Water Oak Utility for a revenue-neutral rate restructuring to implement conservation rates in Lake County.

**AGENDA:** 03/02/10 – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\080295.RCM.DOC

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### **Case Background**

Sun Communities Finance, LLC d/b/a Water Oak Utility (Water Oak or Utility) is a Class C water and wastewater utility located in Lake County. As of the end of the December 31, 2007, test year, the utility provided water and wastewater service to approximately 1,027 water customers and 1,000 wastewater customers. The utility was granted Water Certificate No. 454-W and Wastewater Certificate No. 388-S, pursuant to the provisions of Section 367.041, Florida Statutes (F.S.), in October 1986.<sup>1</sup> The utility's rate base was last established in 1999 as part of a limited proceeding and overearnings investigation. According to Water Oak's 2007 Annual Report, the utility is built out and no further expansion or development is projected.

On May 30, 2008, Water Oak applied for the revenue-neutral rate restructuring being considered in the instant limited proceeding. In its application, Water Oak states that it was informed by the St. Johns River Water Management District (SJRWMD) that the Utility would be required to implement a conservation-oriented rate structure as a condition of Water Oak's permit renewal in 2010. The utility paid its filing fee in the amount of \$1,000 on May 30, 2008, in accordance with Section 367.145, Florida Statutes (F. S.), and Section 25-30.020, Florida Administrative Code (F.A.C.). On June 25, 2009, a customer meeting was held in the Utility's service area to give customers an opportunity to address the rate restructuring and any problems that they were experiencing. In addition to a representative from the Utility, a representative from the SJRWMD was present to address questions regarding the rate restructuring and other water supply issues.

This recommendation addresses Water Oak's revenue-neutral rate restructuring request. The Commission has jurisdiction pursuant to Sections 367.011 and 367.0822, F.S.

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<sup>1</sup> See Order No. 16150, issued May 23, 1986, in Docket No. 850517-WS, In re: Application of Water Oak Utilities Co., Inc., for certificates to provide water and sewer service in Lake County, pursuant to the provisions of Section 367.041, Florida Statutes.

### Discussion of Issues

**Issue 1:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense is \$0. (Lingo, Young)

**Staff Analysis:** Pursuant to Sections 367.121(1)(e), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Staff has examined the actual expenses requested by the Utility and the supporting documentation. Based on its review, staff believes that the Utility should not be allowed to recover rate case expense because it is not justified.

The Utility petitioned the Commission for a revenue-neutral rate restructuring. In its application, the Utility states that: (1) it is not requesting an increase in rates, but merely a revenue-neutral rate restructuring; and (2) it is not seeking recovery of additional expenses. The methodology used to calculate rates in a revenue-neutral proceeding begins with test period revenues. The restructured rates should then be designed such that the resulting revenues are equal to test period revenues.<sup>2</sup> Because the filing purports to be revenue-neutral, it is not readily apparent, based on a visual comparison of the Utility's present and proposed rates, that there would be any increase in the amount of revenues generated.

However, the Utility's filing is not, in fact, revenue-neutral. There is no indication of Water Oak's intention to increase its rates and revenues until reaching the supporting schedules and workpapers attached to the filing. A review of Schedule No. 2, which shows the calculation of revenues at present and proposed rates, indicates two revenue amounts: one amount represents test year revenue per books, while the other amount represents revenue based on proposed rates. The revenue based on proposed rates is \$7,330 (4.8 percent) greater than test year revenues. Moreover, the Utility's updated rate case expense request is \$32,628.50, which, amortized over a four-year period, results in an increase in revenues from rates of \$8,157, or 5.4 percent over test period revenues. If the Commission were to approve the Utility's application, Water Oak customers' rates would result in increased revenues. Therefore, staff recommends that the Commission deny rate case expense recovery in this case.

Except for Order Nos. PSC-95-0967-FOF-SU and PSC-95-1128-FOF-WU, which are discussed below, there have been no revenue-neutral water or wastewater rate restructure filings that have come to fruition. Thus, staff looked to revenue-neutral cases in other industries for guidance regarding the final rates and revenues. In 1997, St. Joe Natural Gas Company, Inc. (St. Joe) petitioned the Commission for a limited proceeding to restructure its rates for all customers

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<sup>2</sup> See Order No. PSC-97-0526-FOF-GU, issued May 7, 1997, in Docket No. 970115-GU, In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc.; Order No. PSC-98-0455-FOF-GU, issued March 31, 1998, in Docket No. 971559-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for limited proceeding to restructure rates and for approval of gas transportation agreements; Order No. PSC-02-1666-PAA-GU, issued November 26, 2002, in Docket No. 020470-GU, In re: Request for limited proceeding by Indiantown Gas Company for approval of Natural Gas Tariff, Original Volume No. 2, implementing restructured rates.

to avoid the potential crisis of losing its largest customer. The result of losing its largest customer would have resulted in St. Joe's remaining customers subsequently paying much higher rates. In that case, the Commission restructured St. Joe's rates for all customers, keeping the revenues neutral.<sup>3</sup> The Commission reached a similar decision in 1997 in a case involving the Florida Division of Chesapeake Utilities Corporation (Chesapeake).<sup>4</sup> Staff reviewed two other rate restructuring cases: an additional case involving Chesapeake, and the other involving Indiantown Gas Company. In both cases, the Commission restructured the rates, keeping them revenue-neutral.<sup>5</sup>

All four of the gas cases referenced above were revenue-neutral restructuring cases; none had rate case expense included as part of the filing. In each of the four gas cases, the Commission's decisions were consistent: rates resulting from revenue-neutral cases did not result in an increase in revenues collected by the utility, but instead merely adjusted the manner in which the existing revenues were collected from the various customer classes. Staff believes the above-referenced cases provide clear guidance regarding revenue-neutral requests: the resulting rates should produce revenues that are, in fact, revenue neutral.

Staff notes that the Commission has granted rate case expense in two applications for a revenue-neutral rate restructuring. Order No. PSC-95-0967-FOF-SU, issued August 8, 1995, in Docket No. 941270-SU, In Re: Application for Revenue Neutral Wastewater Rate Restructuring in Lee County by Forest Utilities, Inc., discusses the Commission's approved recovery of expenses associated with the filing of a request for a revenue-neutral rate restructuring. In that case, the Commission ordered Forest Utilities to file an application for a revenue-neutral rate restructuring after it adjudicated a customer complaint requesting the Commission to require Forest Utilities to reclassify certain condominium associations from the Residential Service tariff to the General Service tariff. The Commission ordered Forest Utility to file an application based upon a base facility and usage charge rate structure within 12 months of the issuance of the customer complaint order. The Commission reasoned that because it required the utility to file the limited proceeding as a revenue-neutral rate restructuring, allowing the recovery of the expenses associated with revenue-neutral rate restructuring was appropriate.

Similarly, rate case expense was approved in Order No. PSC-95-1228-FOF-WU, issued October 5, 1995, in Docket No. 950232-WU, In re: Application for limited proceeding to restructure water rates in Lake County by Lake Utility Services, Inc. (LUSI). In the LUSI case, the Commission ordered the utility to file a rate restructuring application for its physically interconnected subdivisions. The Commission found that requiring the utility to file such a

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<sup>3</sup> See Order No. PSC-97-0526-FOF-GU, issued May 7, 1997, in Docket No. 970115-GU, In re: Petition for limited proceeding to restructure rates by St. Joe Natural Gas Company, Inc.

<sup>4</sup> See Order No. PSC-98-0455-FOF-GU, issued March 31, 1998, in Docket No. 971559-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for limited proceeding to restructure rates and for approval of gas transportation agreements.

<sup>5</sup> See Order No. PSC-05-0208-PAA-GU, issued February 22, 2005, in Docket No. 040956-GU, In re: Petition for authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation; Order No. PSC-02-1666-PAA-GU, issued November 26, 2002, in Docket No. 020470-GU, In re: Request for limited proceeding by Indiantown Gas Company for approval of Natural Gas Tariff, Original Volume No. 2, implementing restructured rates.

request without giving consideration to and allowing the recovery of the expenses associated with the limited proceeding would result in unrecoverable loss to the utility.<sup>6</sup>

However, staff believes that the instant case is distinguishable from both the Forest Utilities and LUSI cases. Forest Utilities and LUSI are Class B utilities, while Water Oak is a Class C utility. Unlike Forest Utilities and LUSI, who were ordered to file revenue-neutral rate restructuring cases, the Commission did not require Water Oak to file its revenue-neutral rate restructuring application. The Utility stated that it was informally informed by the SJWMD that its existing Consumptive Use Permit (CUP) would not be renewed without implementing a conservation-oriented rate structure. The Utility did not file any supporting documentation stating that its existing CUP would not be renewed without implementing a conservation-oriented rate structure. However, the Utility did include in its filing a letter from the SJRWMD, which states that an inclining-block rate structure: (1) is, in most cases, considered a conservation promoting rate structure; and (2) would help demonstrate compliance with CUP permitting criteria in future permit renewals. Staff notes with particularity that the letter does not state that Water Oak's existing CUP would not be renewed without implementing a conservation-oriented rate structure. Rather, the letter states that an applicant for a CUP is required to submit a written proposal and implement a water conservation promoting rate structure, unless it can demonstrate "that the cost of implementing such a rate structure is not justified because it will have little or no effect on reducing water use." Therefore, staff does not believe that the SJWMD letter rises to the level of the Utility being ordered to petition the Commission for a revenue-neutral rate restructuring.

In trying to resolve the rate case expense matter, staff telephoned Water Oak's counsel on July 30, 2009, to express concerns regarding the Utility's request for rate case expense recovery in a case that is styled as revenue-neutral. During the phone conversation several options to resolve this matter were discussed. One of the options given to Water Oak's counsel was to withdraw the application and refile a standard limited proceeding application, without being revenue-neutral. Another option was for the Utility to move forward with its current application for a revenue-neutral rate restructuring, but without the rate case expense. The Utility's counsel expressed his disagreement regarding the propriety of rate case expense recovery in this proceeding. However, the Utility's counsel stated he would inform his client about staff's concerns regarding the Utility's application. Later, Water Oak's counsel informed staff that the Utility would like to move forward with its current application.

In a revenue-neutral rate restructuring, the methodology used to calculate rates begins with test period revenues. The restructured rates should then be designed such that the resulting revenues are equal to test period revenues. The instant case should not deviate from this long-held Commission practice and application without justification. Here, staff does not believe that the Utility can demonstrate a justifiable reason for the Commission to deviate from its current practice and application regarding revenue-neutral proceedings. Thus, the Utility's restructured rates should be designed such that the resulting revenues are equal to the test period revenues.

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<sup>6</sup> See Order No. PSC-95-1228-FOF-WU, issued October 5, 1995, in Docket No. 950232-WU, In re: Application for limited proceeding to restructure water rates in Lake County by Lake Utility Services, Inc. Rate case expense was subsequently approved for the utility as a result of a settlement; See Order No. PSC-96-0504-AS-SU, issued April 12, 1996.

Staff recognizes that it is certainly within a utility's discretion to seek assistance from outside counsel and/or consultants in any proceeding before the Commission. However, in a rate case involving Harbor Utilities Company, Inc. (Harbor), a Class C utility, the Commission was troubled that Harbor did not exercise the option to file for a staff-assisted rate case (SARC). Based on the facts of the case, the Commission found that no rate increase for Harbor was appropriate, and disallowed all of the utility's rate case expense.<sup>7</sup> A revenue-neutral rate restructuring for a Class C utility is tantamount to a SARC with no revenue increase. Similarly, staff is troubled that Water Oak did not consider staff assistance as an available option. Water Oak, a Class C utility, would qualify for a SARC, pursuant to Section 367.0814, F.S. Water Oak would then have had the benefit of staff's assistance in the preparation of this case. Therefore, in this revenue-neutral case, staff does not believe any of the rate case expense incurred by the utility was necessary or of benefit of the ratepayer.

Moreover, the Commission enjoys broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1<sup>st</sup> DCA 1988); but see Florida Crown Utility Services, Inc. v. Utility Regulatory Board of the City of Jacksonville, 274 So. 2d 597 (Fla. 1<sup>st</sup> DCA 1973) (stating that whether a rate increase is granted is not the sole criteria on which that discretion rests). The Commission examines the reasonableness of rate case expenses in all proceedings, and disallows those expenses found to be unreasonable. Therefore, based on the discussion above, staff recommends that the Commission deny the Utility's request to recover rate case expense associated with its application for a revenue-neutral rate restructuring. Staff recommends that the appropriate amount of rate case expense is \$0.

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<sup>7</sup> See Order No. 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.

**Issue 2:** What are the appropriate rate structures for this utility?

**Recommendation:** The appropriate rate structure for the Utility's residential customers is a two-tiered inclining block rate structure. The appropriate usage blocks should be set for monthly consumption levels: (1) of 0-6,000 gallons (6 kgals); and (2) for usage in excess of 6 kgals. The usage block rate factors should be set at 1.0 and 1.25, respectively. The price per gallon for the residential nondiscretionary 0-3 kgal block should not include the price increase associated with the repression adjustment. The appropriate rate structure for the Utility's general service customers should remain the base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery allocation should be set at 40%. (Lingo)

**Staff Analysis:** The current rate structure for the Utility's water system is the BFC/uniform kgal charge rate structure, with a monthly BFC of \$6.88 for a 5/8" x 3/4" meter. Customers are also charged \$0.56 for each kgal used. This rate structure is considered usage-sensitive because customers are charged for all kgals consumed. The residential customer base is slightly seasonal, with an average consumption per customer of 7.9 kgals per month.

Staff takes several things into consideration when designing rates, including the current rate structure, characteristics of the Utility's customer base, various conditions of the Utility's Consumptive Use Permit, and the magnitude of the recommended revenue increase. As discussed in Issue 1, staff recommends that rate case expense (and, therefore, the water system revenue increase) is \$0. Based on staff's recommendation that there be no water system revenue increase, coupled with the need to reduce consumption to the extent possible, staff's recommended rate structure for the water system is one that promotes conservation, to the extent possible, while attempting to minimize price decreases at or below average consumption. In addition, staff's recommended rate structure price per gallon for the nondiscretionary 0-3 kgal block does not include the price increase associated with the repression adjustment. That is, nondiscretionary consumption is shielded from the effects of repression. Staff's recommended rate structure, plus two alternative rate structures, is shown on Table 2-1 on the following page.



TABLE 2-1

<b>WATER OAK UTILITY                  STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR                  TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS                  POST-REPRESSION ANALYSIS</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
BFC/uniform gallonage charge rate structure, with kgals included in the BFC (greater meter sizes have greater kgal allotments included)		Two-tiered inclining-blocks – consumption of 0-6 kgals, 6+ kgals; rate factors at 1.0 and 1.25; BFC = 40 percent	
BFC	\$6.88	BFC	\$4.38
Per kgal	\$0.56	0-3 kgals	\$0.81
		3.001-6 kgals	\$0.84
		In excess of 6 kgals	\$1.05
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$6.88	0	\$4.38
1	\$7.44	1	\$5.19
3	\$8.56	3	\$6.81
5	\$9.68	5	\$8.49
10	\$12.48	10	\$13.53
15	\$15.28	15	\$18.78
20	\$18.08	20	\$24.03
25	\$20.88	25	\$29.28
30	\$23.68	30	\$34.53
<b>Alternative 1</b>		<b>Alternative 2</b>	
Two-tiered inclining-blocks – consumption of 0-6 kgals, 6+ kgals; rate factors of 1.0 and 1.25; BFC = 40 percent		Two-tiered inclining-blocks – consumption of 0-10 kgals, 10+ kgals; rate factors of 1.0 and 1.25; BFC = 25 percent	
BFC	\$4.38	BFC	\$2.73
0-6 kgals	\$0.83	0-10 kgals	\$1.10
In Excess of 6 kgals	\$1.04	In Excess of 10 kgals	\$1.37
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$4.38	0	\$2.73
1	\$5.21	1	\$3.83
3	\$6.87	3	\$6.03
5	\$8.53	5	\$8.23
10	\$13.52	10	\$13.73
15	\$18.72	15	\$20.58
20	\$23.92	20	\$27.43
25	\$29.12	25	\$34.28
30	\$34.32	30	\$41.13

As indicated by the values shown on Table 2-1, Alternative 1 is based on staff's recommended rate structure, but differs in that the price per kgal for the nondiscretionary 0-3 kgal block includes the price increase associated with the repression adjustment. Therefore, nondiscretionary consumption is not shielded from the effects of repression. Alternative 2 represents a rate structure with monthly usage blocks: (1) of 0-10 kgal; and (2) in excess of 10 kgal. The primary difference of this rate structure when compared to the other two rate structures in Table 2-1 is that the BFC cost recovery percentage is 25%. Alternative 2 would place more revenue cost recovery into the gallonage charge, thereby making it, all things equal, more conservation-oriented than rate structures with greater BFC percentages. However, this rate structure concerns staff for several reasons. First, it would result in a BFC of \$2.74, which is only 40% of the current BFC of \$6.88. A related problem is that the significant price reductions at consumption levels of 3 kgal or less that result from a BFC of 25% may actually incent greater consumption – contrary to what this revenue-neutral rate restructuring is attempting to accomplish.

Based on the foregoing, the appropriate rate structure for the Utility's residential customers is a two-tiered inclining block rate structure. The appropriate usage blocks should be set for monthly consumption levels: (1) of 0-6,000 gallons (6 kgals); and (2) for usage in excess of 6 kgals. The usage block rate factors should be set at 1.0 and 1.25, respectively. The price per gallon for the residential nondiscretionary 0-3 kgal block should not include the price increase associated with the repression adjustment. The appropriate rate structure for the Utility's general service customers should remain the base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery allocation should be set at 40%.

**Issue 3:** Is a repression adjustment to the Utility's water system appropriate in this case, and, if so, what is the appropriate adjustment to make?

**Recommendation:** Yes, a repression adjustment is appropriate. Residential water consumption should be reduced by 2.14 percent, resulting in a consumption reduction of approximately 2,028 kgals. Total residential water consumption for ratesetting is 92,699 kgals. Total water consumption for ratesetting is 100,057 kgals, which represents a 1.99 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$401 in purchased power expense, \$60 in chemicals expense and \$22 in regulatory assessment fees (RAFs). The post-repression revenue requirement for the water system is \$151,371.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared by customer class and meter size. **The reports should be filed with staff, on a semi-annual 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 should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo, Stallcup)

**Staff Analysis:** Using our database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this Utility based upon the recommended revenue requirement increase, while using a price elasticity of demand of -0.4 applied to consumption. The methodology for calculating repression adjustments is same methodology that the Commission has approved in prior cases.<sup>8</sup>

Based on its analysis, Staff believes a repression adjustment to the Utility's water system is appropriate. Residential water consumption should be reduced by 2.14 percent, resulting in a consumption reduction of approximately 2,028 kgals. Total residential water consumption for ratesetting is 92,699 kgals. Total water consumption for ratesetting is 100,057 kgals, which represents an 1.99 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$401 in purchased power expense, \$61 in chemicals expense and \$22 in regulatory assessment fees (RAFs). The post-repression revenue requirement for the water system is \$151,371.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. The filing requirements for these repression reports have traditionally been on a quarterly basis. In the recent Labrador Utilities' case in Docket No. 080249-WS, the Commission approved requiring the reports on a semi-

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<sup>8</sup> See Order no. PSC-09-0462-PAA-WS, issued June 22, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

annual, rather than a quarterly, basis.<sup>9</sup> For the purposes of consistency and equal treatment among utilities, staff recommends that on a going-forward basis, the reporting period be on a semi-annual basis. However, staff does not believe reporting periods should be longer than a semi-annual basis. As staff designs more aggressive conservation-oriented rate structures, we believe it is important to obtain information regarding consumption changes on a frequent basis. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to prepare and file a revised monthly report for that month within 30 days of any revision.

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<sup>9</sup> Ibid.

**Issue 4:** What are the appropriate rates for this utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule 1. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$151,371. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Stallcup)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended water rates shown on Schedule No. 1 are designed to produce revenues of \$151,371. Approximately 40 percent (or \$60,548) of the water monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or \$90,823) represents revenue recovery through the consumption charges.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should 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 should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**Issue 5:** What is the appropriate amount by which rates should be reduced four years after the established effective date, to reflect removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** Staff recommends in Issue 1 that the appropriate amount of rate case expense is \$0. If the Commission approves Staff's recommendation in Issue 1, there is no need to reduce rates to remove rate case expense. (Lingo)

**Staff Analysis:** 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. However, staff recommends in Issue 1 that the appropriate amount of rate case expense is \$0. If the Commission approves Staff's recommendation in Issue 1, there is no need to reduce rates to remove rate case expense.

**Issue 6:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for 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, this docket should be closed administratively. (Lingo, Young)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for 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, this docket should be closed administratively.

<b>WATER OAK UTILITY</b>				
<b>Water Monthly Service Rates</b>				
<b>Test Year Ended December 31, 2007</b>				
<b>Monthly Rates</b>	<b>Rates</b>	<b>Utility</b>	<b>Staff</b>	<b>4-Year</b>
<b>Residential and General Service</b>	<b>Prior to</b>	<b>Requested</b>	<b>Recom</b>	<b>Rate</b>
<b><u>Base Facility Charges by Meter Size</u></b>	<b><u>Filing</u></b>	<b><u>Final</u></b>	<b><u>Final</u></b>	<b><u>Reduction</u></b>
5/8" x 3/4"	\$6.88	\$6.92	\$4.38	\$0.00
3/4"	\$10.70	\$10.38	\$6.57	\$0.00
1"	\$17.26	\$17.30	\$10.95	\$0.00
1 1/2"	\$34.50	\$34.60	\$21.90	\$0.00
2"	\$55.22	\$55.36	\$35.04	\$0.00
3"	\$110.43	\$110.72	\$70.08	\$0.00
4"	\$172.56	\$173.00	\$109.50	\$0.00
6"	\$345.12	\$346.00	\$219.00	\$0.00
 <u>Residential Irrigation Service</u>				
5/8" x 3/4"	\$3.46	\$3.46	\$4.38	\$0.00
 <u>Gallage Charges per Month</u>				
All service, per kgal	\$0.56			
 <u>Residential and Residential Irrigation Service</u>				
0-7 kgals		\$0.43		
7.001-12 kgals		\$0.86		
In excess of 12 kgals		\$1.29		
0-3 kgals			\$0.81	\$0.00
3.001-6 kgals			\$0.84	\$0.00
In excess of 6 kgals			\$1.05	\$0.00
 <u>General Service</u>				
Per kgal		\$0.68	\$0.91	\$0.00
 <b><u>Typical Monthly Bills for 5/8" x 3/4"</u></b>				
<b><u>Residential Customers Based on Staff's</u></b>				
<b><u>Recommended Rates</u></b>				
<b><u>Cons (kgal)</u></b>				
0	\$4.38			
3	\$6.81			
5	\$8.49			
8	\$11.43			
10	\$13.53			
15	\$18.78			
20	\$24.03			