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Public Service Commission

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COMMISSION
CLERK

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

DATE: January 12, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Deason, Fletcher, Maurey, Stallcup, Thompson, Williams)
Office of the General Counsel (Jaeger)

Handwritten initials and signatures:
JR BF
ALM
KCT
JSC
W

RE: Docket No. 100149-WU – Application for increase in water rates in Lee County by Ni Florida, LLC.

AGENDA: 1/25/11 – Proposed Agency Action Except Issues Nos. 22 and 23 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: 5-Month Effective Date waived through 1/25/11

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100149.RCM.DOC

COMMUNICATIONS SECTION

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FPSC-COMMISSION CLERK

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Case Background

Ni Florida, LLC (Ni Florida or Utility) is a Class A utility providing service to approximately 744 water customers in Lee County. Ni Florida is a wholly-owned subsidiary of Ni America. Water rates were last established for this Utility in its 1992 rate case.¹

On June 22, 2010, Ni Florida filed its application for the rate increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. Ni Florida had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and July 28, 2010, was established as the official filing date. The test year established for interim and final rates is the 13-month average period ended December 31, 2009.

By Order No. PSC-10-0564-PCO-WU, the Commission approved interim rates designed to generate annual water revenues of \$338,385, an increase of \$117,668 or approximately 53 percent.² The Utility requested final rates designed to generate annual water revenues of \$411,671, an increase of \$191,525 or approximately 87 percent.

By letter dated October 22, 2010, the Utility waived the statutory 5-month deadline for this case through January 25, 2011. This recommendation addresses Ni Florida's requested final rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-92-0807-FOF-WS, issued August 11, 1992, in Docket No. 910560-WS, In re: Application for Approval of rate Increase in Lee County by Tamiami Village Utility, Inc.

² See Order No. PSC-10-0564-PCO-WU, issued September 15, 2010.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Ni Florida satisfactory?

Recommendation: Yes, the quality of service provided by Ni Florida is satisfactory. (Williams)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are also reviewed. The Utility's compliance with the Lee County Health Department (LCHD) is also considered.

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

Ni Florida purchases all of the water it sells to customers from Lee County Utilities. The Utility maintains and operates the distribution system that delivers the treated water to its customers. Ni Florida files monthly operating reports with the LCHD. The LCHD also conducts periodic inspections of the water distribution system. The most recent inspection report from LCHD cited no deficiencies and stated that the Utility was in compliance with all regulations and requirements.

A staff field investigation of the service area was conducted on September 30, 2010. The water distribution facilities appeared to be operating normally. The Utility recently installed isolation valves and replaced a majority of the water meters throughout the distribution system. This improvement project was included as a pro forma project in Ni Florida's filing, but at the time of the field investigation all of the associated work had been completed. These improvements are intended to help the Utility operate more efficiently by allowing portions of the distribution system to be isolated as needed, and by decreasing the amount of unaccounted for water. Therefore, staff recommends that the quality of drinking water delivered to the customers and the operating condition of the water distribution facilities should be considered satisfactory.

Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on September 29, 2010, in the Tamiami Village Clubhouse, in North Ft. Myers, Florida. Approximately 80 customers attended and 18 spoke. Representatives of the Utility and the Office of Public Counsel were also present. The customer comments dealt mainly with their opposition to the level of the rate increase and the burden it would place on the residents of the retirement community who live on fixed incomes. Staff explained the rate making process to the customers and followed up on specific inquiries about cost allocation, rate of return, rate base calculations, and depreciation. One customer had

concerns about the shut-off valve on his water meter. Staff inspected the customer's meter and determined that there is a shut-off valve on both sides of the meter. Staff informed the customer that the maintenance of the valve on the Utility side of the meter is Ni Florida's responsibility; however, the shut-off valve on the customer's side of the meter is the customer's responsibility and may be used by him to shut-off the flow of water into his residence.

A review of all customer complaints received on the Commission's complaint tracking system in the last three years revealed one complaint; the complaint related to a billing issue, which was subsequently resolved. Staff also reviewed customer complaints filed with the Utility. It appears that all of the 10 complaints filed with the Utility were resolved in a timely manner. In addition, there are approximately 28 letters in opposition to the proposed rate increase written by several customers that have been filed in the correspondence side of the docket file.

Conclusion

In summary, Ni Florida meets all required testing and maintenance standards for the distribution system, the distribution system is operating normally, and the Utility appears to address customer complaints in a timely manner. Therefore, staff recommends that the overall quality of service provided by Ni Florida be considered satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to rate base to which the Utility agrees be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility, staff recommends the following adjustments to rate base and operating expenses be made.

Audit Finding	Plant	Accum. Depr.	Accum. Amortz. of CIAC	Amortz. Expense	Depr. Expense	O&M Expense
No. 1	(\$5,512)	(\$69)	\$0	\$0	(\$138)	(\$981)
No. 2	(4,312)	4,312	0	0	(100)	0
No. 3	<u>0</u>	<u>(435)</u>	<u>(1,293)</u>	<u>861</u>	<u>1,251</u>	<u>0</u>
Total:	<u>(\$9,824)</u>	<u>\$3,808</u>	<u>(\$1,293)</u>	<u>\$861</u>	<u>\$1,013</u>	<u>(\$981)</u>

(Deason)

Staff Analysis: In its response to the staff's audit report, Ni Florida agreed to the adjustment amounts listed below. Staff recommends the following adjustments to rate base and operating expenses.

Table 2-1

Audit Finding	Plant	Accum. Depr.	Accum. Amortz. of CIAC	Amortz. Expense	Depr. Expense	O&M Expense
No. 1	(\$5,512)	(\$69)	\$0	\$0	(\$138)	(\$981)
No. 2	(4,312)	4,312	0	0	(100)	0
No. 3	<u>0</u>	<u>(435)</u>	<u>(1,293)</u>	<u>861</u>	<u>1,251</u>	<u>0</u>
Total:	<u>(\$9,824)</u>	<u>\$3,808</u>	<u>(\$1,293)</u>	<u>\$861</u>	<u>\$1,013</u>	<u>(\$981)</u>

Issue 3: Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. The Utility's pro forma plant additions should be increased by \$391. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$288. (Deason)

Staff Analysis: Ni Florida included \$42,194 of pro forma plant in its MFRs associated with the installation of isolation valves. When the water needs to be shut off to one customer, isolation valves allow the Utility to shut-off water to a small section of the service territory and not the entire subdivision. The Utility provided documentation showing a total of \$53,726 for the installation of the isolation valves. Therefore, staff recommends that pro forma plant be increased by \$11,532 and that accumulated depreciation and depreciation expense be increased by \$269.

Ni Florida included \$173,478 of pro forma plant additions in its MFRs associated with new meters. The Utility installed the new meters in order to improve on the water loss the subdivision has experienced in recent years. The Utility provided documentation showing a total of \$162,337 for the installation of meters. Therefore, staff recommends that pro forma plant be decreased by \$11,141 and that accumulated depreciation and depreciation expense be decreased by \$557.

In summary, staff recommends pro forma plant additions of \$216,063. As a result, plant should be increased by \$391. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$288. Staff's recommended pro forma plant and expense is as follows:

Table 3-1

Ni Florida, LLC Pro Forma Plant					
Pro Forma Plant Adjs.	Per MFRs	Staff Adjs. to Plant	Staff Adjusted Plant	Staff Adjs. to Accum. Depr.	Staff Adjs. to Depr. Exp.
Isolation Valves	\$42,194	\$11,532	\$53,726	\$269	\$269
Meters	173,478	(11,141)	162,337	(557)	(557)
Adjustment Totals	\$215,672	\$391	\$216,063	(\$288)	(\$288)

Issue 4: What is the used and useful percentage for the water distribution system?

Recommendation: The Ni Florida water distribution system should be considered 100 percent used and useful (U&U). (Williams)

Staff Analysis: In the Utility's last rate case, there was a stipulation between the parties that the Utility's facilities would be considered 100 percent U&U.³ The U&U calculation for the water distribution system is based on the number of customers connected to the system divided by number of available lots in the service territory. Consideration is also given to growth. The Utility's distribution system currently serves approximately 96 percent of the total number of lots in the service territory. Also, the service territory is built out and has experienced no growth over the past five years. In fact, the customer base has remained relatively constant with no growth since the last rate case. Therefore, staff recommends that the water distribution system be considered 100 percent U&U.

The Utility's filing also indicates that there was 2.84 percent excessive unaccounted for water (UFW) during the test year. However, in March 2010, Ni Florida completed a meter replacement project that replaced the majority of the older water meters throughout the system with newer, more accurate meters. As a result, the amount of excessive UFW decreased after April 2010 to within acceptable levels. Therefore, staff recommends that no adjustment be made to purchased water expense for excessive UFW. However, as discussed in Issue 15, staff adjusted test year billing determinants to increase the amount of accounted for water billed to customers.

³ See Order No. PSC-92-0807-FOF-WS, issued August 11, 1992, in Docket No. 021256-WU, In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc.

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$23,583. (Deason)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. The balance sheet approach is essentially current assets less current liabilities. According to its filing, Ni Florida utilized the balance sheet approach and calculated a working capital allowance of \$76,744, which included a current asset of \$91,804 for unamortized rate case expense for this instant case. However, as discussed below, staff believes that an adjustment to the Utility's working capital balance is necessary.

As addressed in Issue 9, staff is recommending total rate case expense of \$77,257. Based on Commission practice,⁴ one half of the total rate case expense of \$77,257 should be subtracted from the 13-month average balance for Ni Florida's unamortized rate case expense of \$91,804. Thus, staff recommends that working capital be decreased by \$53,161 [$\$91,804 - (\$77,257/2)$]. Therefore, the appropriate amount of working capital is \$23,583 ($\$76,744 - \$53,161$).

⁴ See Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; and PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; 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.

Issue 6: What is the appropriate rate base for the December 31, 2009, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ended December 31, 2009, is \$274,833. (Deason)

Staff Analysis: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ended December 31, 2009, is \$274,833. Staff's recommended schedule for rate base is shown on Schedule No. 1-A. The adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

Issue 7: What is the appropriate return on equity?

Recommendation: The appropriate return on equity (ROE) is 8.82 percent based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Deason)

Staff Analysis: The ROE requested in the Utility's filing is 8.81 percent. Based on the current leverage formula approved in Order No. PSC-10-0401-PAA-WS⁵ and an equity ratio of 100 percent, the appropriate ROE is 8.82 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

⁵ See Order No. PSC-10-0401-PAA-WS, issued June 18, 2010, in Docket No. 100006-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.

Issue 8: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2009, is 8.77 percent. (Deason)

Staff Analysis: In its filings, the Utility requested an overall cost of capital of 8.81 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, staff recommends a weighted average cost of capital of 8.77 percent. This represents a 4-basis point reduction from Ni Florida's requested overall cost of capital of 8.81 percent. Schedule No. 2 details staff's recommended overall cost of capital.

NET OPERATING INCOME

Issue 9: What is the appropriate amount of current rate case expense?

Recommendation: The appropriate amount of rate case expense is \$77,257. This expense should be recovered over four years for an annual expense of \$19,314. Thus, Ni Florida's requested annual rate case expense should be reduced by \$3,837. (Deason)

Staff Analysis: The Utility included in its MFRs an estimate of \$92,604 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On December 9, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$95,595 with \$67,935 already incurred. The components of the estimated rate case expense are as follows:

Table 9-1

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$50,800	\$35,380	\$17,990	\$53,370
Tangibl, LLC	35,000	\$25,330	\$9,670	35,000
Key Engineering	0	421	0	421
Customer Mailings	<u>6,804</u>	<u>6,804</u>	<u>0</u>	<u>6,804</u>
Total Rate Case Expense	<u>\$92,604</u>	<u>\$67,935</u>	<u>\$27,660</u>	<u>\$95,595</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to the Utility's legal fees. The Utility included in its MFRs \$50,800 in legal fees to complete the rate case. The Utility provided invoices through November 30, 2010, showing legal expenses associated with the rate case totaling \$29,822 plus an additional \$5,558 for unbilled legal fees for a total of \$35,380. According to the invoices, the law firm of Rose, Sundstrom & Bentley, LLP, billed the Utility 8.1 hours related to the correction of MFR deficiencies. Based on the law firm's hourly rate of \$305 per hour, the total amount billed to Ni Florida was \$2,471 (\$305x8.1). The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁶

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

Accordingly, staff recommends that \$2,471 be removed as duplicative and unreasonable rate case expense. Therefore, the appropriate invoiced legal fees should be \$32,909 (\$35,380-\$2,471).

The second adjustment relates to estimated legal fees. The list of remaining tasks to complete the case through the end of the PAA process provided by the Utility's legal counsel came to 50.5 hours. The specific amount of time associated with each item and the associated fees based on an hourly rate of \$330 is listed below:

Table 9-2 Estimate To Complete Through PAA Process

<u>Description</u>	<u>Hours</u>	<u>Fees</u>
Respond to formal and informal interrogatories from staff and/or Office of Public Counsel	16.0	\$5,280
Review staff recommendation; conference with client and consultant regarding recommendation; conference with staff regarding recommendation	6.0	\$1,980
Prepare for and attend final rates Agenda conference; discuss Agenda with client and staff	15.0	\$4,950
Review PAA Order; Conference with client and consultant regarding PAA Order	6.0	\$1,980
Prepare revised tariff sheets; Obtain staff approval of tariffs; Draft and revise customer notice; Interact with staff regarding review and approval of tariffs and notice; Coordinate mailing of notices and implementation of tariffs;	3.5	\$1,155
Consult with client and assist with post PAA filing requirements, including Commission Ordered Adjustments, Rate Case expense update and other filing requirements	<u>4.0</u>	<u>\$1,320</u>
Total Estimated Fees	<u>50.5</u>	<u>\$16,665</u>

Staff believes that 50.5 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 Agenda Conference, and attend to miscellaneous post-PAA matters. In its breakdown of estimated legal fees, the Utility applied an hourly rate of \$330 for all estimated legal fees. The law firm representing Ni Florida has a partner billing at a rate of \$330 per hour and an associate lawyer billing at a rate of \$305 per hour. In past rate cases, the partner performed the hours associated with the review of staff's recommendation while all other hours were handled by the associate

attorney.⁷ As such, staff recommends that legal fees be reduced by \$1,112 [(\$330-\$305)x44.5]. Thus, staff believes the appropriate amount of estimated legal fees to complete the PAA process should be \$15,553 (\$16,665-\$1,112). Based on the above adjustments to legal fees, staff believes the total legal fees should be decreased by \$3,583.

The third adjustment relates to the consultant fees for Tangibl, LLC. The Utility included in its MFRs \$35,000 for consulting fees for Tangibl, LLC. A review of the invoices provided by the Utility showed a total of \$25,330. Based on its assigned duties, Tangibl's work has already been completed and there is no further work to be done. Thus, the total amount of consulting fees for Mr. Clayton should be decreased by \$9,670 (\$35,000-\$25,330).

The fourth adjustment relates to customer notices and postage. The Utility estimated \$6,804 for customer mailings. Staff estimated the postage cost for the interim notice, the combined initial and customer meeting notice, and notice of the final rate increase to be \$1,718. Staff recommends that rate case expense be decreased by \$5,086 (\$6,804-\$1,718) for postage costs.

In summary, staff recommends that the Utility's revised rate case expense be decreased by \$15,347. The appropriate total rate case expense is \$77,257. A breakdown of rate case expense is as follows:

Table 9-3

	Utility MFR Estimated	Revised Estimates	Staff Adjustments	Total
Legal Fees	\$50,800	\$53,370	(\$3,583)	\$49,787
Tangibl, LLC	35,000	35,000	(9,670)	25,330
Key Engineering	0	421	421	421
Customer Mailings	<u>6,804</u>	<u>6,804</u>	<u>(5,086)</u>	<u>1,718</u>
Total Rate Case Expense	<u>\$92,604</u>	<u>\$95,595</u>	<u>(\$17,918)</u>	<u>\$77,257</u>
Annual Amortization	<u>\$23,151</u>	<u>\$23,899</u>	<u>(\$4,480)</u>	<u>\$19,314</u>

In its MFRs, Ni Florida requested total rate case expense of \$92,604, which amortized over four years would be \$23,151. Based on the adjustments recommended above, staff's recommended annual rate case expense represents a decrease of \$3,837 from the amount originally requested in the Utility's MFRs.

⁷ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke.

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The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Ni Florida and the recommended adjustments discussed above, staff recommends annual rate case expense of \$19,314.

Issue 10: Should any adjustments be made for non-utility expenses?

Recommendation: Yes, the Utility's O&M expenses should be decreased by \$1,249 to reflect non-utility expenses. (Deason)

Staff Analysis: According to the audit, Ni America, the Utility's parent company, has an allocation policy that is based on two factors; ERCs and payroll charges allocable to the utilities. During the test year, Ni America estimated that 47.09 percent of parent company O&M expenses were allocable to the utilities.

Staff auditors identified \$89,165 of parent company O&M expenses which the auditors believed were non-utility. These expenses included:

- Five weeks severance to seven employees for salaries and the employer's share of taxes;
- Property tax invoices outside the test year;
- Dues paid to the Texas Society of Certified Public Accountants;
- Contributions to the Texas Workforce Commission;
- Image building and entertainment expenses relating to a rodeo;
- Other charges that specifically relate to another affiliate or state.

Staff also identified an additional \$918 in parent company non-utility expenses relating to a Christmas party for a total of \$90,084. Based on staff's allocation methodology discussed in Issue 12, staff believes \$1,601 [$(\$90,084 \times .47) \times .0371$] of parent company O&M expenses allocated to Ni Florida should be removed. In addition, the auditors determined that Ni America had three charges that should have been allocated to Florida only.⁸ Accordingly, expenses should be increased by \$352. Based on the above, staff recommends that Ni Florida's expenses should be reduced by \$1,249 (\$1,601-\$352).

⁸ Audit Finding No. 5.

Issue 11: Should any adjustment be made to bad debt expense?

Recommendation: Yes. The Utility should be entitled to bad debt expense of \$957. As a result, Ni Florida's bad debt expense of \$3,853 should be reduced by \$2,896. (Deason)

Staff Analysis: The Utility recorded bad debt expense of \$3,853 for the test year. Consistent with Commission practice, bad debt expense should be based on a three-year average. The Commission has previously approved the application of a three-year average to determine the appropriate level of bad debt expense. The Commission has set bad debt expense using the three-year average in three electric cases,⁹ two gas cases,¹⁰ and one water and wastewater case.¹¹ The Commission approved a three-year average in these cases based on the premise that a three-year average fairly represented the expected bad debt expense.

In Docket No. 060253-WS, the Commission approved the use of a three-year average based on calendar years 2001-2004, but deleted the highest year's bad debt expense in calculating the average. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense expected to be incurred by the utility. Based on this calculation, Ni Florida should be entitled to bad debt expense of \$957, which staff believes is representative of Ni Florida's bad debt expense. Based on the above, staff recommends that the Utility's bad debt expense of \$3,853 be reduced by \$2,896.

⁹ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

¹⁰ See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

¹¹ See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42.

Issue 12: Should any adjustment be made to the Utility's allocated overhead?

Recommendation: Yes. Ni Florida should be entitled to allocated overhead of \$37,287. As a result, the Utility's allocated overhead of \$175,649 should be reduced by \$138,362. (Deason)

Staff Analysis: Ni Florida recorded allocated overhead of \$175,649 for the test year. The allocated overhead was recorded in the Utility's miscellaneous expense account. As discussed previously, according to the audit, Ni America, the Utility's parent company, has an allocation policy that is based on two factors; ERCs and payroll charges allocable to the utilities. During the test year, Ni America estimated that 47.09 percent of parent company O&M expenses were allocable to the utilities.

According to the audit, Ni America had \$2,133,221 in O&M expenses. Ni America allocated \$1,004,534 ($\$2,133,221 \times 0.47$) to its various subsidiaries. Ni Florida's allocated share was \$175,649 or 17.49 percent of the total allocated overhead.

The Utility states that Ni America functions include:

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

In January 2010, Ni America purchased Palmetto Utilities located in South Carolina. The acquisition of Palmetto Utilities added over 15,000 additional ERCs to the approximately 4,700 existing ERCs used to allocate O&M expenses during the test year. Staff believes that this is a known and measurable change that must be taken into account for this rate case.

Staff has recalculated the allocated overhead using Ni America's average ERC count through September 2010. Accordingly, the Utility's share of allocated overhead is 3.71(753/20,283) percent or \$37,287 ($\$1,004,534 \times .0371$).

Based on the above, the Utility should be entitled to recover allocated overhead of \$37,287. As a result, staff recommends that Ni Florida's allocated overhead of \$175,649 be reduced by \$138,362.

Issue 13: What is the test year operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating loss is (\$7,700). (Deason)

Staff Analysis: As shown on Schedule No. 3-A, the Utility's net operating loss is (\$7,700) after applying staff's adjustments. Staff's adjustments to operating income are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Issue 14: What is the appropriate revenue requirement for the December 31, 2009 test year?

Recommendation: The following revenue requirement should be approved:

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$220,146	\$33,297	\$253,443	15.12%

(Deason)

Staff Analysis: Ni Florida requested an annual revenue requirement of \$411,671. This requested revenue requirement represents a revenue increase of \$191,525 or approximately 87 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a revenue requirement of \$253,443. The recommended water revenue requirement exceeds staff's adjusted test year revenues by \$33,297, or 15.12 percent. This recommended pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn an 8.77 percent return on its investment in rate base.

RATES AND CHARGES

Issue 15: What are the appropriate rate structures for the water system?

Recommendation: The appropriate rate structure for the water system's residential class is a three-tier inclining-block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of: a) 0-6 kgal in the first usage block; and b) all usage in excess of 6.001 kgal in the second usage block. However, as discussed in Issue 16, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgal per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal; b) 3.001-6 kgal; and c) all usage in excess of 6 kgal in the third usage block and usage block rate factors of 0.93, 1.0, and 1.5 respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 56.80 percent. (Thompson)

Staff Analysis: The Utility's current water system rate structure for the residential and general service classes consists of a base facility charge (BFC) and a uniform gallonage charge. The current BFC for 5/8" x 3/4" meter customers is \$13.61 per month and the gallonage charge is \$3.36 per kgal.

In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the state's five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. The WMDs also have a policy that recommends not recovering more than 40 percent of revenues through the BFC. The Commission tries to support this policy whenever possible.

Ni Florida is located in Lee County within the South Florida Water Management District (SFWMD or District). The entire District has a designated year-round Landscape Irrigation Rule. Within these areas, the existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems.¹²

As discussed in Issue 4, the Utility's filing indicates that there was excessive unaccounted for water during the test year. However, in March 2010, Ni completed a meter replacement project that replaced the majority of the older water meters throughout the system with newer, more accurate meters. As a result, the amount of unaccounted for water decreased after April 2010 to within acceptable levels. In order to be consistent with staff's recommendation in Issue 4 that no adjustment for unaccounted for water be made, staff adjusted test year billing determinants to increase the amount of accounted for water billed to customers.

¹² See www.sfwmd.gov, "Water Shortage Watch."

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) allow the Utility to recover its revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement where appropriate water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

The Utility's service area contains a 243 unit, highly seasonal RV park. The RV park's current rate is based on a settlement between the Utility and Tamiami Master Association, Inc., whereby they agreed that the estimated number of ERCs for the RV park should be 104.76.¹³ The Utility states that there are now 243 units in the RV park, with the vast majority of residents being seasonal in nature. The estimated number of ERCs for the RV park, divided by the number of units in the park, equates to approximately 0.43 ERC per unit. Staff believes this number is reasonable because: a) the units are RVs, which use less water than homes; b) the customer base is seasonal; and c) the Utility did not request a change in the number of ERCs assigned to the RV park.

During the 2009 test year, about 50 percent of residential bills were at 1 kgal or less and average residential consumption was 1.9 kgal/month. These factors are indicative of a very seasonal customer base. When recommending rates for a very seasonal customer base, it is not unusual to recommend a BFC greater than 40 percent. This is typically done to not only address the seasonal nature of the customer base but to better meet the cash flow needs that arise due to a seasonal customer base. Therefore, in order to address the seasonality of the Utility's customer base, staff recommends that the entire increase in water system revenue requirements be allocated to the gallonage charge, and that the BFC remain unchanged at \$13.31 for a 5/8" x 3/4" meter customer. This would result in a BFC allocation of 56.80 percent. Although staff's recommended BFC cost recovery allocation does not comply with the WMD's policy that no more than 40 percent of revenues should be recovered through the BFC, in this instance, staff recommends that, due to the extreme seasonality of the customer base and the accompanying cash flow concerns, the BFC not be reduced.

In addition to the recommended rate structure described above, staff also evaluated two alternative water rate structures. The first alternative rate structure consists of a three-tiered rate structure as described above, but with a higher rate factor in the third block. The second alternative represents a continuation of the Utility's current rate structure. These rate structures and their resulting bills are shown on the following table.

¹³ See Order No. PSC-06-0338-AS-WU, issued April 24, 2006, in Docket No. 050819-WU, In re: Request to establish new class of service for RV park in Lee County, by Tamiami Village Water Company, Inc.

NI FLORIDA, LLC STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS POST-REPRESSION ANALYSIS			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC/uniform gallonage charge rate structure		Three-tiered inclining-blocks – consumption of 0-3 kgals, 3-6 kgals and 6+ kgals; rate factors at 0.93, 1.0, and 1.50; BFC = 56.80 percent	
BFC	\$13.61	BFC	\$13.61
Gallonage Charge	\$3.36	0-3 kgals (no repression adjustment)	\$4.40
		3.001-6 kgals	\$4.71
		In excess of 6 kgals	\$7.06
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$13.31	0	\$13.61
1	\$16.97	1	\$18.01
3	\$23.69	3	\$26.82
5	\$30.41	5	\$36.24
10	\$47.21	10	\$69.20
15	\$64.01	15	\$104.52
20	\$80.81	20	\$139.84
25	\$97.61	25	\$175.16
30	\$114.41	30	\$210.48
Alternative 1		Alternative 2	
Three-tiered inclining-blocks – consumption of 0-3 kgals, 3-6 kgals, 6+ kgals; rate factors at 0.90, 1.0, and 2.00; BFC = 56.85 percent		BFC and Uniform Gallonage Charge BFC = 56.49 percent	
BFC	\$13.61	BFC	\$13.61
0-3 kgals (no repression adjustment)	\$4.26	Gallonage Charge	\$4.58
3.001-6 kgals	\$4.73		
In excess of 6 kgals	\$9.45		
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$13.61	0	\$13.61
1	\$17.87	1	\$18.20
3	\$26.39	3	\$27.36
5	\$35.85	5	\$36.53
10	\$78.38	10	\$59.45
15	\$125.65	15	\$82.36
20	\$172.91	20	\$105.28
25	\$220.18	25	\$128.20
30	\$267.44	30	\$151.11

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential customer classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total number of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a three-tier inclining-block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of: a) 0-6 kgals in the first usage block; and b) all usage in excess of 6.001 kgals in the second usage block. However, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal; b) 3.001-6 kgal; and c) all usage in excess of 6 kgals in the third usage block. The appropriate usage block rate factors are 0.93, 1.0 and 1.50, respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 56.80 percent.

Issue 16: Is a repression adjustment appropriate in this case, and, if so, what are the appropriate adjustments?

Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year residential kgals sold should be reduced by 389 kgal to 16,397 kgals, purchased water expense should be reduced by \$1,406, and regulatory assessment fees (RAFs) should be reduced by \$66. The final post-repression revenue requirement should be \$250,976.

In order to monitor the effect of the rate structure and rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with 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. (Thompson)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that about 80 percent of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that the bulk of the customer base of the Utility are seasonal residents. This analysis also showed that average residential consumption per customer was 1.9 kgal per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.¹⁴ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 3 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 3 kgals per month).

Therefore, based on this methodology, staff calculated that test year residential consumption for this Utility should be reduced by 389 kgal, purchased water expense should be reduced by \$1,406, and RAFs should be reduced by \$66. The final post-repression revenue requirement should be \$250,976. In order to monitor the effect of the rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed,

¹⁴ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; Order No. PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning with 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.

Issue 17: What are the appropriate monthly water rates?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$250,976. The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. 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 approved 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 ten days after the date of the notice. (Thompson, Deason)

Staff Analysis: The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is \$250,976. As discussed in Issue 15, staff recommends that the appropriate rate structure for the water system's residential class is a three-tier inclining-block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of: a) 0-6 kgals in the first usage block; and b) all usage in excess of 6.001 kgals in the second usage block. However, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal; b) 3.001-6 kgal; and c) all usage in excess of 6 kgals in the third usage block. The usage block rate factors should be 0.93, 1.0 and 1.50, respectively. The BFC cost recovery percentage should be set at 56.80 percent, causing the Utility's BFC for a 5/8" x 3/4" meter customer to remain unchanged from the corresponding rate prior to filing. Staff recommends that the traditional BFC/uniform gallonage charge rate structure be applied to all non-residential rate classes. As discussed in Issue 16, staff recommends that a repression adjustment be made. Applying these rate designs and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedule No. 4. These rates are designed to recover a post-repression revenue requirement of \$250,976.

Issue 18: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Ni Florida should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. The Utility should provide proof the customers have received notice within ten days after the date that the notice was sent. The appropriate charges are reflected below. This notice may be combined with the notice required in other issues.

Miscellaneous Service Charges

	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$24	\$34
Normal Reconnection	\$24	\$34
Violation Reconnection	\$24	\$34
Premises Visit	\$18	\$27

(Thompson)

Staff Analysis: The Utility believes that its miscellaneous service charges should be updated to reflect current costs. Staff agrees with this request. Ni Florida provided the following cost estimates for the expenses associated with initial connection, normal reconnection, and violation reconnection fees during business hours and after hours:

Table 18-1

<u>Business Hours</u>		<u>After Hours</u>	
<u>Item:</u>	<u>Cost:</u>	<u>Item:</u>	<u>Cost:</u>
Labor (\$32.00/hr. x 0.7 hours)	\$22.40	Labor (\$48.00/hr. x 0.7 hours) ¹⁵	\$33.60
Transportation	<u>5.00</u>	Transportation	<u>6.00</u>
Total	<u>\$27.40</u>	Total	<u>\$39.60</u>

However, staff notes that in response to staff's data request, the Utility stated that Florida Utility Group, the Utility's contract operator, charges an hourly rate for these tasks of \$27.50. As this service is provided by a contract operator, staff recommends that the transportation charge, during business hours and after, should be consistent with one another. Based on this information, staff lowered the labor charge to \$27.50 and kept the transportation charges

¹⁵ Represents time-and-a-half wage.

consistent. Staff recommends the following cost estimates for the expenses associated with miscellaneous service charges, during business hours and after hours:

Table 18-2

<u>Business Hours</u>		<u>After Hours</u>	
<u>Item:</u>	<u>Cost:</u>	<u>Item:</u>	<u>Cost:</u>
Labor (\$27.50/hr. x 0.7 hours)	\$19.25	Labor (\$41.25/hr. x 0.7 hours) ¹⁶	\$28.86
Transportation	<u>5.00</u>	Transportation	<u>5.00</u>
Total	<u>\$24.25</u>	Total	<u>\$33.86</u>

Staff believes that the recommended charges shown above are cost based, reasonable, and similar to fees the Commission has approved for other utilities.¹⁷ Additionally, Ni Florida has also requested increased charges for premises visit fees. The Utility's requested premises visit fees are lower than the requested initial connection and normal reconnection fees. Reduced activities are required for this function. As a result, staff believes the Utility's requested premises visit fees of \$18 and \$27 for business hours and after hours, respectively, are cost-based and appropriate.

Therefore, staff recommends that Ni Florida be allowed to implement initial connection and normal reconnection fees for work performed during business hours of \$24 and initial connection and normal reconnection fees for work performed after business hours of \$34. Also, Ni Florida should be allowed to implement a premises visit fee for work performed during business hours of \$18 and a premises visit fee for work performed after business hours of \$27. Ni Florida should be allowed to implement these charges because the increased charges are cost-based, reasonable, and similar to the labor costs approved in prior Commission decisions.¹⁸ The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. Ni Florida should provide proof the

¹⁶ Represents time-and-a-half wage.

¹⁷ See Order Nos. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.; PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company; and PSC-10-0735-TRF-WS, issued December 20, 2010, in Docket No. 100381-WS, In re: Request for approval of tariff amendment to include a late payment fee of \$5.25 and establish miscellaneous service charges association with connection, reconnection, and premises visits for its wastewater operation in Orange County by Pluris Wedgefield, Inc.

¹⁸ Ibid.

customers have received notice within ten days after the date the notice was sent. Below is a breakdown of the Utility's current and staff recommended miscellaneous service charges:

Table 18-3

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	\$15	\$24	\$34
Normal Reconnection	\$15	\$15	\$24	\$34
Violation Reconnection	Actual Cost	Actual Cost	\$24	\$34
Premises Visit	\$10	\$10	\$18	\$27

Issue 19: Should the Utility's request for approval of a \$5 late fee be granted?

Recommendation: Yes. The Utility's requested late fee of \$5 should be approved. The late fee should be effective on or after the stamped approval date on the 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 within ten days after the date of the notice. This notice may be combined with the notices required in other issues. (Thompson)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. Ni Florida has requested a \$5.00 late fee. The Utility's request for a late fee was accompanied by its reason for requesting the fee, as well as the cost justification required by Section 367.091, F.S. Ni Florida's cost analysis breakdown for its proposed late fee is shown below:

Table 19-1 Cost Analysis Breakdown

<u>Business Hours</u>	
<u>Item:</u>	<u>Cost:</u>
Office Clerk Labor (\$22.50/hr. x 0.20 hours)	\$4.50
Postage/Printing Envelope	<u>0.50</u>
Total	<u>\$5.00</u>

This cost is comprised of one-fifth of an hour of employee time at \$22.50 per hour to research and verify that the payment is late, process the bill and assess the late payment fee, or \$4.50 (\$22.50/5). In addition, the \$5.00 fee also recognizes the cost of an envelope, printer and printing supplies, and postage to send the notice to the customer, totaling approximately \$0.50.

The late payment fee is designed to encourage customers to pay their bills on time to ensure that the cost associated with late payment is not passed onto customers who do pay on time. The Utility's justification for the late fee is to place the burden of these costs on the cost causer rather than the general body of ratepayers. Staff believes the estimated cost provided by the Utility is reasonable.

Based on the above, staff recommends that Ni Florida's proposed late fee of \$5 should be approved. This fee should be effective on or after the stamped approval date on the 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 within ten days after the date of the notice. This notice may be combined with the notices required in other issues.

Issue 20: Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the 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 within ten days after the date of the notice. This notice may be combined with the notice required in other issues. (Thompson)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Ni Florida has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Ni Florida should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 832.08(5), the following fees may be assessed:

- 1) \$25, if the face value does not exceed \$50,
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3) \$40, if the face value exceeds \$300,
- 4) or five percent of the face amount of the check, whichever is greater.

Staff recommends that Ni Florida's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065 and 832.08(5) F.S. Approval of an NSF fee is consistent with the Commission's prior decisions.¹⁹ Furthermore, as discussed in prior Commission orders, an NSF fee places the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers.

As such, staff recommends that Ni's proposed NSF fee be approved. The fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the fees 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 ten days after the date of the notice.

¹⁹ See Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.

OTHER ISSUES

Issue 21: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, the Utility should be required to refund 31.17 percent of revenues collected under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made. (Deason)

Staff Analysis: By Order No. PSC-10-0564-PCO-WU, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$338,385, which represented an increase of \$117,668 or approximately 53 percent. This interim increase was effective for service rendered after September 30, 2010 and was protected by an escrow account.

According to Section 367.082, F.S., any refund should 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 should 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 12-month period ended December 31, 2009. Ni Florida'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 of return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement 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.

Using the principles discussed above, the \$338,385 revenue requirement granted in Order No. PSC-10-0564-PCO-WU for the interim test year is greater than the revenue requirement for the interim collection period of \$233,209. This results in a 31.17 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund 31.17 percent of the revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed

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refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made.

Issue 22: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. 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. Ni Florida should provide proof of the date notice was given no less than ten days after the date of the notice. (Deason)

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. 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 \$20,446. The decreased revenue will result in the rate reductions recommended by staff on Schedule No. 4.

The Utility should be required to 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. Ni Florida should provide proof of the date notice was given no less than ten 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 should 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.

Issue 23: Should the Utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission decision, Ni Florida should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Deason)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission decision, Ni Florida should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 24: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action (PAA) files a protest within 21 days of the issuance of the PAA 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, that the interim refund has been completed and verified by staff, and that the Utility has provided proof that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments. Once these actions are complete, this docket should be closed administratively. (Jaeger, Deason)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the PAA 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, that the interim refund has been completed and verified by staff, and that the Utility has provided proof that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments. Once these actions are complete, this docket should be closed administratively.

NI Florida, LLC Schedule of Water Rate Base Test Year Ended 12/31/09			Schedule No. 1-A Docket No. 100149-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$292,084	\$173,478	\$465,562	(\$9,433)	\$456,129
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(203,862)	0	(203,862)	4,096	(199,766)
5 CIAC	(110,779)	0	(110,779)	0	(110,779)
6 Amortization of CIAC	106,959	0	106,959	(1,293)	105,666
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Acquisition Adjustment	713,630	(713,630)	0	0	0
9 Working Capital Allowance	<u>76,744</u>	<u>0</u>	<u>76,744</u>	<u>(53,161)</u>	<u>23,583</u>
Rate Base	<u>\$874,776</u>	<u>(\$540,152)</u>	<u>\$334,624</u>	<u>(\$59,791)</u>	<u>\$274,833</u>

NI Florida, LLC Adjustments to Rate Base Test Year Ended 12/31/09		Schedule No. 1-B Docket No. 100149-WU
Explanation	Water	
<u>Plant In Service</u>		
1 Reflect Agreed-Upon Audit Adjustments.(Issue 2)		(\$9,824)
2 Reflect Appropriate Pro Forma Plant. (Issue 3)		<u>391</u>
Total		<u>(\$9,433)</u>
<u>Accumulated Depreciation</u>		
1 Reflect Agreed-Upon Audit Adjustments.(Issue 2)		\$3,808
2 Reflect Appropriate Pro Forma Accum. Depr. (Issue 3)		<u>288</u>
Total		<u>\$4,096</u>
<u>Accumulated Amortization of CIAC</u>		
Reflect Agreed-Upon Audit Adjustments.(Issue 2)		<u>(\$1,293)</u>
<u>Working Capital</u>		
Reflect Appropriate Working Capital Allowance. (Issue 5)		<u>(\$53,161)</u>

NI Florida, LLC Capital Structure-13-Month Average Test Year Ended 12/31/09						Schedule No. 2 Docket No. 100149-WU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	713,563	(381,111)	332,452	0	332,452	99.35%	8.81%	8.77%	
5 Customer Deposits	4,660	(2,489)	2,171	0	2,171	0.65%	6.00%	0.04%	
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%	
8 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
9 Total Capital	<u>\$718,223</u>	<u>(\$383,600)</u>	<u>\$334,623</u>	\$0	<u>\$334,623</u>	<u>100.00%</u>		<u>8.81%</u>	
Per Staff									
10 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
11 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
13 Common Equity	713,563	0	713,563	(443,390)	270,173	98.30%	8.82%	8.67%	
14 Customer Deposits	4,660	0	4,660	0	4,660	1.70%	6.00%	0.10%	
15 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
16 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%	
17 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
18 Total Capital	<u>\$718,223</u>	<u>\$0</u>	<u>\$718,223</u>	<u>(\$443,390)</u>	<u>\$274,833</u>	<u>100.00%</u>		<u>8.77%</u>	
						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>7.82%</u>	<u>9.82%</u>		
OVERALL RATE OF RETURN						<u>7.78%</u>	<u>9.75%</u>		

NI Florida, LLC Statement of Water Operations Test Year Ended 12/31/09						Schedule No. 3-A Docket No. 100149-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$220,146</u>	<u>\$191,525</u>	<u>\$411,671</u>	<u>(\$191,525)</u>	<u>\$220,146</u>	<u>\$33,297</u> 15.12%	<u>\$253,443</u>
Operating Expenses							
2 Operation & Maintenance	\$314,908	\$36,696	\$351,604	(\$147,317)	\$204,287	0	\$204,287
3 Depreciation	1,911	10,200	12,111	724	12,835	0	12,835
4 Amortization	0	0	0	861	861	0	861
5 Taxes Other Than Income	9,863	8,619	18,482	(8,619)	9,863	1,498	11,362
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$326,682</u>	<u>\$55,515</u>	<u>\$382,197</u>	<u>(\$154,351)</u>	<u>\$227,846</u>	<u>\$1,498</u>	<u>\$229,345</u>
8 Operating Income	<u>(\$106,536)</u>	<u>\$136,010</u>	<u>\$29,474</u>	<u>(\$37,074)</u>	<u>(\$7,700)</u>	<u>\$31,798</u>	<u>\$24,098</u>
9 Rate Base	<u>\$874,776</u>		<u>\$334,624</u>		<u>\$274,833</u>		<u>\$274,833</u>
10 Rate of Return	<u>(12.18%)</u>		<u>8.81%</u>		<u>(2.81%)</u>		<u>8.77%</u>

NI Florida, LLC Adjustment to Operating Income Test Year Ended 12/31/09		Schedule No. 3-B Docket No. 100149-WU
Explanation		Water
<u>Operating Revenues</u>		
To remove Utility's requested final revenue increase.		<u>(\$191,525)</u>
<u>Operation and Maintenance Expense</u>		
1 Reflect Agreed-Upon Audit Adjustments. (Issue 2)		(\$981)
2 Reflect the appropriate amount of rate case expense. (Issue 9)		(3,829)
3 To remove non -utility expenses (Issue 10)		(1,249)
4 Reflect the appropriate amount of bad debt expense. (Issue 11)		(2,896)
5 Reflect the appropriate amount of allocated overhead. (Issue 12)		<u>(138,362)</u>
Total		<u>(\$147,317)</u>
<u>Depreciation Expense - Net</u>		
1 Reflect Agreed-Upon Audit Adjustments. (Issue 2)		\$1,013
2 Reflect Appropriate Pro Forma Depreciation Expense. (Issue 3)		<u>(288)</u>
Total		<u>\$724</u>
<u>Amortization -- Other Expense</u>		
Reflect Agreed-Upon Audit Adjustments. (Issue 2)		<u>\$861</u>
<u>Taxes Other Than Income</u>		
RAFs on revenue adjustments above.		<u>(\$8,619)</u>

NI Florida, LLC Water Monthly Service Rates Test Year Ended 12/31/09				Schedule No. 4 Docket No. 100149-WU	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-Year Rate Reduction
<u>Residential Service</u>					
All meter sizes	\$13.61	\$20.90	\$25.39	\$13.61	\$1.09
<u>Gallonage Charge, per 1,000 gallons</u>					
RS - Gallonage Charge, per 1,000 Gallons	\$3.36	\$5.16	\$6.27	-	-
RS - Gallonage Charge, 0-3,000 kgals	\$0.00	\$0.00	\$0.00	\$4.40*	\$0.35
RS - Gallonage Charge, 3,000-6,000 kgals	\$0.00	\$0.00	\$0.00	\$4.71*	\$0.38
RS - Gallonage Charge, over 6,000 kgals * per 1,000 gallons	\$0.00	\$0.00	\$0.00	\$7.06*	\$0.56
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$11.13	\$17.09	\$20.76	\$13.61	\$1.09
1"	\$27.89	\$42.83	\$52.02	\$20.42	\$1.63
1-1/2"	\$55.76	\$85.62	\$104.01	\$34.03	\$2.72
2"	\$89.21	\$136.98	\$166.40	\$68.05	\$5.43
3"	\$195.18	\$299.71	\$364.07	\$108.88	\$8.69
4"	\$278.82	\$428.14	\$520.08	\$217.76	\$17.38
6"	\$0.00	\$0.00	\$0.00	\$340.25	\$27.15
8"	\$0.00	\$0.00	\$0.00	\$680.50	\$54.30
<u>Gallonage Charge, per 1,000 gallons</u>					
GS-Gallonage Charge, per 1,000 Gallons	\$3.36	\$5.16	-	\$4.60	\$0.37
<u>General Service</u>					
Base Facility Charge by Meter Size:					
3"	\$1,425.53	\$2,188.95	\$2,659.04	\$1,425.53	\$113.76
<u>Gallonage Charge, per 1,000 Gallons</u>					
GS-Gallonage Charge	\$3.54	\$5.44	\$6.60	\$4.60	\$0.37
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$23.69	\$36.38	\$44.20	\$26.81	
5,000 Gallons	\$30.41	\$46.70	\$56.74	\$36.23	
10,000 Gallons	\$47.21	\$72.49	\$88.09	\$69.18	