

State of Florida



Public Service Commission
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-M-E-M-O-R-A-N-D-U-M-

DATE: January 27, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Smith, Fletcher, Hudson, Maurey, Simpson)
Office of the General Counsel (Murphy, Brown) *AS BG SA ALM CR MB P TO CRB*

RE: Docket No. 100326-SU – Application for staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Co., Inc.

AGENDA: 02/08/11 – Regular Agenda – Proposed Agency Action Except for Issues 9, 11, and 12 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 11/14/11 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100326.RCM.DOC

DEPARTMENT NUMBER DATE

00637 JAN 27 =

FPSC-COMMISSION CLERK

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Case Background

Commercial Utilities, Division of Grace & Company, Inc., (Commercial or Utility) is a Class C wastewater-only provider with facilities located in the City of Jacksonville. Commercial serves 43 wastewater general service customers. The Utility was issued Certificate Nos. 219-W and 164-S on June 4, 1975. According to Commercial's 2009 Annual Report, gross revenues were \$246,308, and operating expenses were \$280,961.

The Utility's last staff-assisted rate case was in Docket No. 910766-WS, which resulted in Order No. PSC-93-0233-FOF-WS.¹ Commercial's water certificate was canceled by Order No. PSC-97-0094-FOF-WU,² issued January 27, 1997. All water service is now provided by the City of Jacksonville.

During the course of staff's investigation, the Utility was advised that it is serving several customers that are not within the Utility's authorized service territory. On September 24, 2010, the Utility filed an application to amend its service territory, in Docket No. 100398-SU. The Utility is working to complete the application; therefore, staff will file a recommendation to address the proposed amendment in a subsequent recommendation.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

1 See Order No. PSC-93-0233-FOF-WS, issued February 12, 1993, in Docket No. 910766-WS, In re: Application for a staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

2 See Order No. PSC-97-0094-FOF-WU, issued January 27, 1997, in Docket No. 961268-WU, In re: Request for change in regulatory status and cancellation of Certificate No. 219-W in Duval County by Commercial Utilities, Division of Grace and Company, Inc.

Discussion of Issues

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

Recommendation: Yes. The quality of service provided by Commercial is satisfactory. (Simpson)

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 wastewater 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 reviewed.

Commercial owns the wastewater collection system used to serve 43 general service customers near the intersection of I-10 and I-295 in Jacksonville. Bulk wastewater treatment service is provided by Jacksonville Electric Authority (JEA). On August 10, 2009, JEA's Environmental and Compliance Department, Environmental Quality Division, issued a consent order to the Utility. The consent order found that property owned by the Utility was unlawfully diverting wastewater away from a septic tank/drain field system, resulting in an unlawful discharge of wastewater to surface waters and an exceedance of water quality standards. The Utility was allowed to pay a portion of the required fine and to install electronic monitoring systems at three lift stations in lieu of payment of the balance of the fine. On November 3, 2009, the consent order was closed because the Utility had complied with all of the provisions in the consent order. It appears that the quality of the Utility's product and the condition of the facilities are satisfactory.

The Consumer Activity Tracking System reflected one customer complaint in the last three years which was closed. A customer meeting was held on December 8, 2010, in Jacksonville, Florida. Representatives of the Utility were present; however, no customers attended the meeting. Therefore, staff recommends that the Utility's attempt to address customer satisfaction is satisfactory.

The Utility's product, the operating condition of the facilities, and customer satisfaction are satisfactory. Therefore, staff recommends that the overall quality of service for Commercial is satisfactory.

Issue 2: What are the used and useful percentages for this Utility?

Recommendation: The collection system should be considered 100 percent used and useful (U&U). (Simpson)

Staff Analysis: Commercial has a network of collection systems consisting of polyvinyl chloride and clay lines with three lift stations. The Utility purchases bulk wastewater treatment from JEA. The Utility has had minimal growth in the last five years; therefore, pursuant to Rule 25-30.432, F.A.C., it appears that the system is built out. Staff recommends that the collection system be considered 100 percent U&U. There does not appear to be a problem with infiltration and inflow.

Issue 3: What is the appropriate average test year rate base for the Utility?

Recommendation: The appropriate average test year rate base for Commercial is \$377,598. (Smith)

Staff Analysis: The appropriate components of the Utility’s rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, amortization of intangible plant, and working capital.

Staff selected a test year ended June 30, 2010, for this rate case. The Utility’s rate base was last established by Order No. PSC-93-0233-FOF-WS.³ A summary of each component and the adjustments follows:

Utility Plant in Service: The Utility recorded \$524,655 in UPIS. Commercial recorded plant additions to miscellaneous expenses. Staff has reclassified plant additions of \$36,930 (\$1,410 + \$28,548 + \$5,457 + \$1,515) to the appropriate plant accounts from miscellaneous expenses. In addition, staff has increased Account No. 361 - Collection Sewers Gravity, by \$74,399 to reflect the appropriate balance. UPIS included intangible plant. Consistent with the Utility’s last rate case, intangible plant of \$105,677 has been reclassified to its own account. The Utility provided an invoice for \$4,487 for wastewater service line upgrades completed outside of the test year. The Utility also provided an estimate of \$40,131 to replace 434 lineal feet of 8-inch sewer main and install 3 new manholes, and an estimate of \$21,335 to rehabilitate 10 existing manholes as pro forma additions. Based on an invoice provided by the Utility, staff believes the cost of \$4,487 for wastewater service line upgrades is supported and should be included in this rate case. However, the amounts for remaining pro forma additions should not be included due to the fact that the work will not be completed within 24 months of the test year. Also, staff has made an averaging adjustment of \$20,709 to UPIS. Based on the above, staff recommends the following adjustments:

Table 3-1

<u>Account Description</u>	<u>Wastewater</u>
1. To reclassify plant addition to Acct. No. 354 from misc. expenses.	\$1,410
2. To reclassify plant addition to Acct. No. 360 from misc. expenses.	28,548
3. To reclassify plant addition to Acct. No. 389 from misc. expenses.	5,457
4. To reclassify plant addition to Acct. No. 361 from misc. expenses.	1,515
5. To reflect the appropriate balance in Account No. 361	74,399
6. To reclassify to Intangible Plant.	(105,677)
7. To reflect pro forma plant addition.	4,487
8. To reflect averaging adjustment.	<u>(20,709)</u>
Total	<u>(\$10,569)</u>

³ See Order No. PSC-93-0233-FOF-WS, p. 4.

Staff's net adjustment to UPIS is a decrease of \$10,569. Staff's recommended UPIS balance is \$514,086.

Non-Used and Useful Plant: As discussed in Issue 2, Commercial's wastewater system is 100 percent U&U. Therefore, a non-U&U adjustment is not necessary.

Intangible Plant: By Order No. PSC-93-0233-PAA-WS, the Commission established balances of \$343,080 and \$12,694 for intangible plant and accumulated amortization of intangible plant, respectively, as of June 30, 1992. Order No. PSC-93-0233-PAA-WS states:

Intangible Plant

We transferred into this category all costs related to the wastewater interconnection that cannot be considered tangible plant, but does represent investment by the Utility. This includes a \$50,000 fee to hook into the City's lift stations, a \$287,204 impact fee charged by the city at the time of the interconnection, and \$5,876 in street repairs associated with construction of the force main.

The \$55,876 in hook-up and street repair costs were actual costs incurred and paid by the Utility during its last rate proceeding. The \$287,204 impact fee, which included a 12 percent interest rate, was a negotiated fee between JEA and the Utility that was never finalized in a written contract. The Utility commenced making monthly payments of \$4,121 to JEA in September 1992 that it identified as a monthly capacity fee. On July 11, 1997, Commercial notified JEA that its pending connection with a new wastewater customer violated the existing verbal agreement between the Utility and JEA. Subsequent negotiations with JEA failed to resolve the issue. In August 1997, Commercial unilaterally voided its obligations under the agreement and ceased making capacity fee payments to JEA as of September 1997. On January 12, 2000, the unresolved capacity fee dispute arose again when the City of Jacksonville, on behalf of JEA, threatened to withhold its approval of building permits for the construction of a new Home Depot that was to be connected to Commercial's wastewater system. The issue was abated on June 2, 2000, when the Utility agreed to place \$25,000 into an interest bearing escrow account pending the final resolution of its dispute with JEA. The capacity fee dispute has remained unchanged since that time.

The following chart summarizes the principal paid by the Utility and the corresponding years paid:

Table 3-2

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
January		1,300	1,465	1,650	1,860	2,095	
February		1,313	1,479	1,667	1,878	2,116	
March		1,326	1,494	1,683	1,897	2,137	
April		1,339	1,509	1,700	1,916	2,159	
May		1,352	1,524	1,717	1,935	2,180	
June	55,876	1,366	1,539	1,734	1,954	2,202	
July		1,380	1,555	1,752	1,974	2,224	
August		1,393	1,570	1,769	1,994	<u>2,247</u>	
September	1,249	1,407	1,586	1,787	2,014		
October	1,261	1,421	1,602	1,805	2,034		
November	1,274	1,436	1,618	1,823	2,054		
December	<u>1,287</u>	<u>1,450</u>	<u>1,634</u>	<u>1,841</u>	<u>2,075</u>		
	<u>\$60,947</u>	<u>\$16,483</u>	<u>\$18,574</u>	<u>\$20,929</u>	<u>\$23,584</u>	<u>\$17,362</u>	<u>\$157,878</u>

Since the Utility and JEA are in dispute over the amount of the impact fees, Commercial should not be allowed to earn a return on the uncertain impact fees. Therefore, interest has not been included in the calculation of intangible plant. Staff believes only the principal paid of \$157,878 should be recognized. Staff has reclassified \$105,677 of intangible plant recorded in UPIS. Staff has increased intangible plant by \$52,201 to reflect the appropriate balance. Staff has calculated \$99,225 for accumulated amortization of intangible plant as of the test year end. Additionally, staff recommends amortization expense of \$5,847. These amounts are based on the actual principal payments and the 27-year service life contained in the order mentioned above. Staff recommends intangible plant of \$157,878.

Contribution in Aid of Construction: The Utility did not record any CIAC. By Order No. PSC-93-0233-FOF-WS, the Commission established a CIAC balance of \$15,440 in Commercial's last rate proceeding. The Utility initially posted the ordered balance. However, in 2004, Commercial reversed and wrote off the CIAC balance of \$15,440. No explanation was provided for the write-off. Staff recommends increasing CIAC by \$15,440 to reflect the appropriate balance.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$356,185. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is \$224,475. As a result, staff has decreased this account by \$131,710 to reflect accumulated depreciation calculated per staff. Staff decreased this account by \$8,089 to reflect an averaging adjustment. These adjustments result in accumulated depreciation of \$216,386.

Amortization of Intangible Plant: As discussed above, staff's calculated amortization of intangible plant is \$99,225.

Amortization of CIAC: Commercial did not record any amortization of CIAC. This account has been increased by \$9,365 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$234 to reflect an averaging adjustment. Staff's net adjustments to this account result in Amortization of CIAC of \$9,131.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$27,554 (based on O&M of \$220,433).

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is \$377,598. Rate base is shown on Schedule No. 1-A. Adjustments to rate base are shown on Schedule No. 1-B.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for this Utility?

Recommendation: The appropriate return on equity (ROE) is 8.82 percent with a range of 7.82 percent to 9.82 percent. The appropriate overall rate of return is 8.78 percent. (Smith)

Staff Analysis: According to Audit Finding 7, Commercial's capital structure for the test year consists of the following:

Table 4-1

<u>Account Description</u>	<u>Balance</u>
Accounts Payable-Commercial Utilities	\$220,325
Accounts Payable-Grace Brothers	430,500
Equity	<u>1,113,017</u>
Total	<u>\$1,763,842</u>

These balances are based on cash flow exchanges between related parties and its shareholders. There are no documents to support the liability that describe the terms, obligations or repayment of debt. Under this scenario, the Commission has treated such amounts as contributed capital in prior rate cases and included the amounts as equity.⁴

The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the most recent Commission-approved leverage formula, the appropriate rate of return on equity is 8.82 percent.⁵ Staff recommends an ROE of 8.82 percent with a range of 7.82 percent to 9.82 percent, and an overall rate of return of 8.78 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order Nos. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; PSC-09-0618-PAA-WS, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

⁵ See Order No. PSC-10-0401-PAA-WS, issued June 19, 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), F.S.

Issue 5: What is the appropriate amount of test year revenues in this case?

Recommendation: The appropriate test year revenue for this Utility is \$244,798. (Smith)

Staff Analysis: Commercial recorded test year wastewater revenue of \$246,308. The Utility calculates and bills its customers for wastewater service based on monthly water consumption billing reports provided by JEA. Using test year billing analysis, staff has calculated revenues of \$244,798 for the test year. This results in a decrease of \$1,510 to Commercial's recorded test year revenues. Staff recommends test year revenue of \$244,798. Test year revenue is shown on Schedule No. 3-A, and the adjustment is shown on Schedule No. 3-B.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expenses for this Utility is \$255,714. (Smith)

Staff Analysis: Commercial recorded operating expenses of \$317,612, for the test year ended June 30, 2010. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Purchased Wastewater Treatment (710) – Commercial recorded \$98,214 in this account. The Utility purchases bulk wastewater treatment from JEA. In October 2009, JEA increased the bulk wastewater service rates it charges. Staff recommends annualizing this account to reflect JEA's increase in bulk wastewater service rates. Staff has calculated annualized purchased wastewater treatment expenses of \$112,685. Accordingly, staff recommends increasing this account by \$14,471 to reflect the annualized effect of the increased rates. Staff recommends total purchased wastewater treatment expense for the test year of \$112,685.

Contractual Services - Professional (731) – Commercial recorded \$600 in this account. This amount includes 4 invoices totaling \$150 for the Utility's accounting firm to prepare and compile quarterly financial statements. The Utility also requested to include the annual report preparation fee in this rate case. Therefore, staff recommends increasing contractual services – professional by \$2,500 for an invoice from the same accounting firm referenced above to prepare the Utility's annual report. Staff recommends contractual services – professional of \$3,100.

Contractual Services - Other (736) – Commercial recorded \$145,811 in this account. The Utility included \$130,655 for overhead allocated from the parent company. After reviewing the salary information provided by the Utility, staff believes the appropriate overhead allocation should be \$7,000 per month (\$84,000 annually). This amount includes \$5,000 per month for the payroll of two of the parent company's employees and \$2,000 per month for the Utility's office space, including property taxes, and office supplies in a building owned by the parent company. No further information regarding overhead costs was provided by the Utility. Accordingly, staff recommends reducing contractual services – other by \$46,655 (\$130,655 - \$84,000). Commercial included \$15,156 in this account for repairs and monthly maintenance fees. Based on invoices provided by the Utility, the annual cost of monthly maintenance service for 3 lift stations is \$5,220. However, the Utility only recorded \$4,785 for this service. Staff recommends increasing this account by \$435 (\$5,220 - \$4,785). Staff recommends increasing contractual services – other by \$675 for sewer line repairs that were incurred during the test year but not included. The annual cost to monitor the Utility's 3 lift stations is \$1,924. The Utility only recorded \$1,122 of this amount. Therefore, staff recommends increasing contractual services – other by \$802 (\$1,924 - \$1,122). Staff recommends contractual services – other of \$101,068 (\$145,811 - \$46,655 + \$435 + \$675 + \$802).

Regulatory Commission Expense (765) – Commercial recorded \$2,377 in this account. This amount reflects 3 invoices for consulting and legal services to prepare for this rate case proceeding. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has

estimated \$38 for postage expense, \$30 for printing expense, and \$4 for envelopes. The above results in \$72 for postage, mailing notices, and envelopes. Commercial paid a \$1,000 rate case filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Based on the above, staff recommends total rate case expense of \$3,449 ($\$2,377 + \$72 + \$1,000$), which amortized over four years is \$862. Therefore, staff has made a reduction of \$1,515 to reflect the appropriate regulatory commission expense balance.

Miscellaneous Expense (675) – The Utility recorded \$38,781 in this account. This expense has been decreased by \$36,930 ($\$1,410 + \$28,548 + \$5,457 + \$1,515$) to reclassify miscellaneous expenses that should have been capitalized in Account Nos. 354, 360, 361, and 389, respectively. Staff recommends increasing miscellaneous expense by \$18 to include an invoice for office services that were not included in the test year. The total adjustment for miscellaneous expenses is a decrease of \$36,912 ($\$36,930 - \18). Staff recommends miscellaneous expense of \$1,869 ($\$38,781 - \$36,912$).

Operation and Maintenance Expense (O&M) Summary – Total adjustments to O&M expense result in a decrease of \$66,199. This represents a reduction of approximately 23 percent of the Utility's O&M expenses recorded in the test year. Staff's recommended O&M expense is \$220,433. O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded \$19,425 in this account. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation is \$16,923. Thus, staff has made an adjustment to decrease depreciation expense by \$2,502. Staff has decreased amortization of CIAC by \$489 based on composite rates. This results in a net depreciation expense of \$16,434 ($\$19,425 - \$2,502 - \489).

Intangible Plant Amortization Expense – As discussed in Issue 3, staff's recommended intangible plant amortization expense is \$5,847.

Taxes Other Than Income (TOTI) – Commercial recorded \$11,555 in this account for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues, the Utility's RAFs should be \$11,016. Therefore, staff has decreased this account by \$539 to reflect the appropriate RAFs. As discussed in Issue 7, revenues have been increased by \$44,069 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$1,983 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is \$12,999.

Income Tax – The Utility did not have any income tax expense for the test year. Commercial is an S Corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Commercial's recorded test year operating expenses results in staff's recommended operating expenses of \$255,714. Operating expenses are shown on Schedule No. 3-A, and adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$288,867. (Smith)

Staff Analysis: The Utility should be allowed an annual increase of \$44,069 (18 percent). This will allow Commercial the opportunity to recover its expenses and earn an 8.78 percent return on its investment. The calculation is as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$377,598
Rate of Return	x .0878
Return on Rate Base	<u>\$33,153</u>
Adjusted O&M expense	220,433
Depreciation expense (Net)	16,434
Amortization	5,847
Taxes Other Than Income	12,999
Income Taxes	<u>0</u>
Revenue Requirement	\$288,867
Less Test Year Revenues	<u>244,798</u>
Annual Increase	<u>\$44,069</u>
Percent Increase/(Decrease)	<u>18%</u>

Issue 8: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenue of \$288,867, excluding miscellaneous service charges. The appropriate rate structure for Commercial's general service customers is a continuation of the BFC/uniform gallonage charge rate structure. Commercial 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 on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Smith)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce revenue of \$288,867.

The appropriate rate structure for Commercial's general service customers is a continuation of the BFC/uniform gallonage charge rate structure. Staff has applied an 18 percent across-the-board increase to the Utility's existing rates.

The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Based on the foregoing, the appropriate wastewater rates are shown on Schedule No. 4.

Issue 9: 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 wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. 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 one month prior to the actual date of the required rate reduction. If Commercial 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 the reduction in the rates due to the amortized rate case expense. (Smith)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year 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 in working capital, and the gross-up for RAFs which is \$913. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in rate decreases as shown on Schedule No. 4.

Commercial should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If Commercial 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 the reduction in the rates due to the amortized rate case expense.

Issue 10: Should Commercial's request to amend the Utility's customer deposits tariff and establish non-sufficient funds (NSF) fees be approved?

Recommendation: Yes. Commercial's request to amend the Utility's customer deposits and establish non-sufficient funds (NSF) fees should be approved. The Utility should file revised tariff sheets and a proposed customer notice consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The tariff sheets containing customer deposits and non-sufficient funds fees should become effective for services rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475, F.A.C. In addition, the approved customer deposits and NSF fees should not be implemented until staff has approved the proposed customer deposits and NSF fees notice and the notice has been received by the customers. This notice may be combined with the notice required in Issue 8. (Smith)

Staff Analysis: Currently, Commercial has a tariff for customer deposits, but the tariff does not state a specific charge for customer deposits. The Utility does not have an existing tariff for non-sufficient funds fees. By letter dated, July 29, 2010, the Utility requested a revision to the current tariff to collect customer deposits and non-sufficient funds fees, which are discussed below.

Customer Deposits

The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new Utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a two-month period. A schedule of staff's recommended deposits follows:

<u>Meter Size</u>	<u>Staff Recommended Wastewater Deposit</u>
General Service	
5/8" x 3/4"	2 x average bill
All over 5/8" x 3/4"	2 x average bill

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility should refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

Commercial's current tariff for customer deposits does not specify the amount of customer deposits the Utility may collect. Under the amount of deposit section, the tariff sheet lists N/A as the applicable charge. However, under the additional deposit section, the tariff sheet states that the Utility may collect customer deposits using an average monthly bill for a two-month period. The Utility has collected 3 customer deposits totaling of \$7,050. Staff believes the customer deposits tariff sheet should be amended for clarification purposes. Accordingly, staff recommends Commercial's customer deposits tariff sheets be revised to reflect the above

mentioned charges.

The Utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Non-Sufficient Funds Fees

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. Commercial has requested to collect NSF fees in accordance with the Section 832.08(5), F.S.

Staff believes the fees 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.

Based on the above, Commercial's request to amend the Utility's customer deposits tariff and establish NSF fees should be approved. In addition, the approved customer deposits and NSF fees should not be implemented until staff has approved the proposed customer deposits and NSF fees notice and the notice has been received by the customers. The Utility should file revised tariff sheets and a proposed customer notice consistent with the Commission's vote. This notice may be combined with the notice required in Issue 8. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The tariff sheets containing customer deposits and non-sufficient funds fees should become effective for services rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475, F.A.C. Staff recommends revision of Commercial's current tariffs to reflect NSF fees and charges set by Sections 68.065 and 832.08(5) F.S. Approval of NSF fees is consistent with prior Commission decisions.⁶

⁶ See Order Nos. 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.; and PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

Issue 11: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Commercial 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Smith)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Commercial 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$29,428. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

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

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

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

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

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total

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Date: January 27, 2011

amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 12: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable NARUC USOA primary accounts associated with the Commission-approved adjustments?

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

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

Issue 13: Should this docket be closed?

Recommendation: No. The docket should remain open until a final order has been issued, staff has approved the revised tariff sheets and customer notices, the Utility has sent the notices to its customers, and staff has received proof that the customers have received notice within 10 days after the date of the notice. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Brown)

Staff Analysis: No. The docket should remain open until a final order has been issued, staff has approved the revised tariff sheets and customer notices, the Utility has sent the notices to its customers, and staff has received proof that the customers have received notice within 10 days after the date of the notice. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 6/30/10		DOCKET NO. 100326-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$524,655	(\$10,569)	\$514,086
2. LAND & LAND RIGHTS	0	0	0
3. INTANGIBLE PLANT	0	157,878	157,878
4. NON-USED AND USEFUL COMPONENTS	0	0	0
5. CIAC	0	(15,440)	(15,440)
6. ACCUMULATED DEPRECIATION	(356,185)	139,799	(216,386)
7. AMORTIZATION OF INTANGIBLE PLANT	0	(99,225)	(99,225)
8. AMORTIZATION OF CIAC	0	9,131	9,131
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>27,554</u>	<u>27,554</u>
10. WASTEWATER RATE BASE	<u>\$168,470</u>	<u>\$209,128</u>	<u>\$377,598</u>

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.
TEST YEAR ENDED 6/30/10
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 100326-SU

WASTEWATER

UTILITY PLANT IN SERVICE

1. To reclassify plant addition to Acct. No. 354 from misc. expenses.	\$1,410
2. To reclassify plant addition to Acct. No. 360 from misc. expenses.	28,548
3. To reclassify plant addition to Acct. No. 389 from misc. expenses.	5,457
4. To reclassify plant addition to Acct. No. 361 from misc. expenses.	1,515
5. To reflect the appropriate balance in Account No. 361	74,399
6. To reclassify to Intangible Plant.	(105,677)
7. To reflect pro forma plant addition.	4,487
8. To reflect averaging adjustment.	(20,709)
Total	<u>(\$10,569)</u>

INTANGIBLE PLANT

1. To reclassify Intangible Plant from UPIS.	\$105,677
2. To reflect appropriate Intangible Plant Balance.	52,201
Total	<u>\$157,878</u>

CIAC

To reflect unrecorded CIAC.	<u>(\$15,440)</u>
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ACCUMULATED DEPRECIATION

1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$131,710
2. To reflect averaging adjustment.	8,089
Total	<u>\$139,799</u>

AMORTIZATION OF INTANGIBLE PLANT

To reflect the appropriate balance.	<u>(\$99,225)</u>
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AMORTIZATION OF CIAC

1. To reflect the appropriate balance.	\$9,365
2. To reflect averaging adjustment.	(234)
Total	<u>\$9,131</u>

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O&M expenses.	<u>\$27,554</u>
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COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC. TEST YEAR ENDED 6/30/10 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 100326-SU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>1,763,842</u>	<u>0</u>	<u>1,763,842</u>					
5. TOTAL COMMON EQUITY	<u>\$1,763,842</u>	<u>\$0</u>	<u>\$1,763,842</u>	<u>(\$1,393,294)</u>	<u>\$370,548</u>	<u>98.13%</u>	<u>8.82%</u>	<u>8.65%</u>
6. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7. OTHER LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
8. TOTAL LONG TERM DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>		
9. CUSTOMER DEPOSITS	<u>7,050</u>	<u>0</u>	<u>7,050</u>	<u>0</u>	<u>7,050</u>	<u>1.86%</u>	7.00%	<u>0.13%</u>
10. TOTAL	<u>\$1,770,892</u>	<u>\$0</u>	<u>\$1,770,892</u>	<u>(\$1,393,294)</u>	<u>\$377,598</u>	<u>100.00%</u>		<u>8.78%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.82%</u>	<u>9.82%</u>	
OVERALL RATE OF RETURN						<u>7.80%</u>	<u>9.76%</u>	

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.				SCHEDULE NO. 3-A	
TEST YEAR ENDED 6/30/10				DOCKET NO. 100326-SU	
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$246,308</u>	<u>(\$1,510)</u>	<u>\$244,798</u>	<u>\$44,069</u> 18.00%	<u>\$288,867</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$286,632	(\$66,199)	\$220,433	\$0	\$220,433
3. DEPRECIATION (NET)	19,425	(2,991)	16,434	0	16,434
4. INTANGIBLE PLANT AMORTIZATION EXPENSE	0	5,847	5,847	0	5,847
5. TAXES OTHER THAN INCOME	11,555	(539)	11,016	1,983	12,999
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$317,612</u>	<u>(\$63,881)</u>	<u>\$253,731</u>	<u>\$1,983</u>	<u>\$255,714</u>
8. OPERATING INCOME/(LOSS)	<u>(\$71,304)</u>		<u>(\$8,933)</u>		<u>\$33,153</u>
9. WASTEWATER RATE BASE	<u>\$168,470</u>		<u>\$377,598</u>		<u>\$377,598</u>
10. RATE OF RETURN	<u>(42.32%)</u>		<u>(2.37%)</u>		<u>8.78%</u>

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.
TEST YEAR ENDED 6/30/10
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 100326-SU
PAGE 1 of 2

WASTEWATER

OPERATING REVENUES

- | | | |
|----|---|------------------|
| 1. | To adjust the Utility's revenues to audited test year amount. | <u>(\$1,510)</u> |
|----|---|------------------|

OPERATION AND MAINTENANCE EXPENSES

- | | | |
|----|---|--------------------------|
| 1. | Purchased Wastewater Treatment (710) | |
| a. | To reflect increase in bulk wastewater service rates. | <u>\$14,471</u> |
| 2. | Contractual Services - Professional (731) | |
| a. | To reflect the Annual Report preparation fee. | <u>\$2,500</u> |
| 3. | Contractual Services - Other (736) | |
| a. | To reflect the appropriate management fee. | (\$46,655) |
| b. | To reflect the appropriate cost of lift station maintenance. | 435 |
| c. | To reflect sewer line repairs. | 675 |
| d. | To reflect the appropriate cost to monitor the Utility's lift stations. | 802 |
| | Subtotal | <u>(\$44,743)</u> |
| 4. | Regulatory Commission Expenses (765) | |
| a. | To reflect four-year amortization of rate case expense. | <u>(\$1,515)</u> |
| 5. | Miscellaneous Expense (775) | |
| a. | To capitalize and reclassify expense to UPIS. | (\$36,930) |
| b. | To include invoice for office services. | 18 |
| | Subtotal | <u>(\$36,912)</u> |
| | TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | <u>(\$66,199)</u> |

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.
TEST YEAR ENDED 6/30/10
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 100326-SU
PAGE 2 of 2

	<u>WASTEWATER</u>
1. DEPRECIATION EXPENSE	
a. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	(\$2,502)
b. To reflect Accumulated Amortization of CIAC.	(489)
Total	<u>(\$2,991)</u>
2. INTANGIBLE PLANT AMORTIZATION EXPENSE	
a. To reflect the appropriate intangible plant amortization exp.	<u>\$5,847</u>
3. TAXES OTHER THAN INCOME	
a. To reflect appropriate RAFs.	<u>(\$539)</u>

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/10		DOCKET NO. 100326-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	98,214	14,471	112,685
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	849	0	849
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	600	2,500	3,100
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	145,811	(44,743)	101,068
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	2,377	(1,515)	862
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>38,781</u>	<u>(36,912)</u>	<u>1,869</u>
	<u>\$286,632</u>	<u>(\$66,199)</u>	<u>\$220,433</u>

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 6/30/10		DOCKET NO. 100326-SU	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"x3/4"	\$27.54	\$32.50	\$0.10
3/4"	\$71.49	\$84.36	\$0.26
1"	\$107.26	\$126.57	\$0.40
1-1/2"	\$143.02	\$168.77	\$0.53
2"	\$228.81	\$270.00	\$0.84
3"	\$457.61	\$539.99	\$1.69
4"	\$715.05	\$843.77	\$2.64
Gallage Charge per 1,000 gallons	\$3.71	\$4.38	\$0.01