

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Co., Inc. | DOCKET NO. 100326-SU
ORDER NO. PSC-11-0138-PAA-SU
ISSUED: February 28, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

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

BACKGROUND

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

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.

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FPSC-COMMISSION CLERK

No. PSC-97-0094-FOF-WU,² issued January 27, 1997. All water service is now provided by the City of Jacksonville.

We have jurisdiction over the subject matter of this case pursuant to Section 367.0814, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we must determine 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. We review comments or complaints received from customers as part of our quality of service evaluation.

Quality of Utility's Product and Operational Condition of the Plant

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 that exceeded 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. We therefore find that the quality of the Utility's product and the condition of the facilities shall be considered satisfactory.

Customer Satisfaction

The Consumer Activity Tracking System reflected one customer complaint in the last three years which has been closed. In addition, a customer meeting was held on December 8, 2010, in Jacksonville, Florida, at which only our staff and representatives of the Utility were present. No customers attended the meeting. We find that the Utility's attempt to address customer satisfaction shall be considered satisfactory.

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.

Quality of Service Summary

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

USED AND USEFUL

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. According to the criteria established in our Rule 25-30.432, F.A.C., it appears that the system is built out. Therefore, we find that the collection system shall be considered 100 percent used and useful. There is no evidence of a problem with infiltration and inflow.

RATE BASE

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.

Our 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 our adjustments follows:

Utility Plant in Service: Commercial recorded \$524,655 in UPIS. We have reclassified plant additions totalling \$36,930 to the appropriate plant accounts from miscellaneous expenses. In addition, we have increased Account No. 361 - Collection Sewers Gravity, by \$74,399 to reflect the appropriate balance. Commercial also included intangible plant in UPIS, and consistent with the Utility's last rate case, we have reclassified intangible plant of \$105,677 to its own account. Commercial provided an invoice for \$4,487 for wastewater service line upgrades completed outside of the test year. It 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, we find that the cost of \$4,487 for wastewater service line upgrades is supported by the appropriate documentation and therefore it shall be included in this rate case. However, the amounts for remaining pro forma additions shall not be included because the work will not be completed within 24 months of the test year. Finally, we have made an averaging adjustment of \$20,709 to UPIS. Based on the above, we approve the following adjustments:

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

Table 3-1

<u>Adjustment 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>

Our net adjustment to UPIS is a decrease of \$10,569. Our approved UPIS balance is \$514,086.

Non-Used and Useful Plant: As discussed above, Commercial’s wastewater system is 100 percent used and useful, and therefore, a non-U&U adjustment is not necessary.

Intangible Plant: By Order No. PSC-93-0233-PAA-WS, we 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, at page 5:

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 Commercial during its last rate proceeding. The \$287,204 impact fee, which included a 12 percent interest rate, was a negotiated fee between JEA and Commercial that was never finalized in a written contract. The Utility commenced making monthly payments of \$4,121 to JEA in September 1992 which 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 it 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 Commercial 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 Commercial 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 Commercial and JEA are in dispute over the amount of the impact fees, Commercial should not earn a return on the uncertain impact fees. Therefore, we have not included interest in the calculation of intangible plant. We shall only recognize the principal paid of \$157,878. We have reclassified \$105,677 of intangible plant recorded in UPIS, and we have increased intangible plant by \$52,201 to reflect the appropriate balance. We have calculated \$99,225 for accumulated amortization of intangible plant as of the test year end, and we find that amortization expense in the amount of \$5,847 is appropriate. These amounts are based on the actual principal payments and the 27-year service life contained in our order mentioned above. We approve intangible plant of \$157,878.

Contribution in Aid of Construction: Commercial did not record any CIAC. In Commercial's last rate proceeding, we established a CIAC balance of \$15,440. Commercial initially posted the ordered balance. However, in 2004, Commercial wrote off the CIAC balance of \$15,440. No explanation was provided for the write-off. We shall increase CIAC by \$15,440 to reflect the appropriate balance.

Accumulated Depreciation: Commercial recorded a balance for accumulated depreciation of \$356,185. We have calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. By that calculation, the amount of accumulated depreciation is \$224,475. As a result, we have decreased this account by \$131,710. We have also 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, we find that amortization of intangible plant shall be \$99,225.

Amortization of CIAC: Commercial did not record any amortization of CIAC. We have increased this account by \$9,365 to reflect our amortization of CIAC calculation, and we have decreased the account by \$234 to reflect an averaging adjustment. The 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., we find that the one-eighth of the O&M expense formula shall be used for calculating working capital allowance. Applying this formula, we approve a working capital allowance of \$27,554, based on O&M of \$220,433.

Rate Base Summary: Based on the forgoing, we find 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.

RATE OF RETURN

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 Commercial's shareholders. There are no documents to support the liability that describe the terms, obligations or repayment of debt. Under this circumstance, we have treated such amounts as contributed capital in prior rate cases and included the amounts as equity.⁴

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.

We have reconciled Commercial's capital structure with our approved rate base. Consistent with our most recent approved leverage formula, the appropriate rate of return on equity (ROE) is 8.82 percent.⁵ We approve 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.

TEST YEAR REVENUE

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

OPERATING EXPENSE

Commercial recorded operating expenses of \$317,612, for the test year ended June 30, 2010. We have reviewed the test year O&M expenses, and we have examined the canceled checks and other supporting documentation. We have determined that several adjustments to the Utility's operating expenses are appropriate, 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. We shall annualize this account to reflect JEA's increase in bulk wastewater service rates, which results in annualized purchased wastewater treatment expenses of \$112,685. Accordingly, we shall increase this account by \$14,471 to reflect the annualized effect of the increased rates. We find that total purchased wastewater treatment expense for the test year is \$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. Commercial also asked to include the annual report preparation fee in this rate case. We find it appropriate to increase contractual services -- professional by \$2,500 for an invoice from the same accounting firm referenced above to prepare the Utility's annual report. Contractual services -- professional expense for the test year is \$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, we find that the appropriate overhead allocation shall 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,

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.

including property taxes, and office supplies in a building owned by the parent company. Commercial provided no other information regarding overhead costs. Accordingly, we shall reduce contractual services – other by \$46,655. 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. We find that it is appropriate to increase this account by \$435. We shall also increase 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, but the Utility only recorded \$1,122 of this amount. Therefore, we shall increase contractual services – other by \$802. We find that the total amount of expenses for contractual services – other for the test year shall be \$101,068.

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. The cost of these notices amounted to \$38 for postage expense, \$30 for printing expense, and \$4 for envelopes for a total of \$72. Commercial also 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, we approve total rate case expense of \$3,449, which amortized over four years is \$862. We have therefore reduced the appropriate regulatory commission expense balance by \$1,515.

Miscellaneous Expense (675) – Commercial recorded \$38,781 in this account. We have decreased this expense by \$36,930 to reclassify miscellaneous expenses that should have been capitalized. We will also increase miscellaneous expense by \$18 to include an invoice for office services that was not included in the test year. The total adjustment for miscellaneous expenses is a decrease of \$36,912. We approve the amount of \$1,869 for miscellaneous expense for the test year.

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. We approve the amount of \$220,433 for O&M expense for the test year. O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Related Amortization of CIAC) – Commercial recorded \$19,425 in this account. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., we determined that test year depreciation is \$16,923, and we made an adjustment to decrease depreciation expense by \$2,502. We also decreased amortization of CIAC by \$489 based on composite rates. This results in a net depreciation expense for the test year of \$16,434.

Intangible Plant Amortization Expense – As discussed above, we find that intangible plant amortization expense is \$5,847 for the test year.

Taxes Other Than Income (TOTI) – Commercial recorded \$11,555 in this account for regulatory assessment fees (RAFs). Based on our approved test year revenues, the Utility’s RAFs should be

\$11,016. Therefore, we decreased this account by \$539 to reflect the appropriate RAFs. As discussed above, we increased revenues by \$44,069 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI shall be increased by \$1,983 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, the TOTI expense is \$12,999 for the test year.

Income Tax – Commercial did not have any income tax expense for the test year because Commercial is a Chapter S Corporation, and the tax liability is passed on to the owner’s personal tax returns. Accordingly, we did not make an adjustment to this account.

Operating Expense Summary – Our adjustments to Commercial’s recorded test year operating expenses results in total operating expenses of \$255,714. Operating expenses are shown on Schedule No. 3-A, and adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Commercial shall be allowed an annual increase of \$44,069 (or 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	\$33,153
Adjusted O&M Expense	220,433
Depreciation Expense (Net)	16,434
Amortization	5,847
Taxes Other Than Income	12,999
Income Taxes	0
Revenue Requirement	\$288,867
Less Test Year Revenues	244,798
Annual Increase	\$44,069
Percent Increase/(Decrease)	18%

APPROPRIATE RATES

Excluding miscellaneous service revenues, the approved rates shall be designed to produce revenue of \$288,867.

We approve a continuation of the BFC/uniform gallonage charge rate structure for Commercial's general service customers, and we have applied an 18 percent across-the-board increase to the Utility's existing rates.

The approved rates shall 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. The approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility 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.

RATE CASE EXPENSE

Section 367.0816, F.S., requires that 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 shall 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 shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Commercial shall also 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 shall 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.

CUSTOMER DEPOSITS AND NON-SUFFICIENT FUNDS FEES

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.

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. We approve the following schedule to calculate the appropriate customer deposit:

<u>Meter Size</u>	<u>Wastewater Deposit</u>
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 shall refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility shall pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

The Utility shall file revised tariff sheets which are consistent with the our decision memorialized in this Order. Our staff shall have administrative authority to approve the revised tariff sheets upon verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the customer deposit shall become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Non-Sufficient Funds (NSF) Fees

Section 367.091, F.S., requires that we approve a utility's rates, charges, and customer service policies. Commercial has requested to collect NSF fees in accordance with Section 832.08(5), 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.

We approve Commercial's request to amend the Utility's customer deposits tariff and establish NSF fees pursuant to Section 832.08(5), F.S. Approval of NSF fees is consistent with our prior decisions.⁶

The Utility shall file revised tariff sheets and a proposed customer notice consistent with our decision herein. The approved customer deposits and NSF fees shall not be implemented until our staff has reviewed the tariffs and notice, and the notice has been received by the customers. This notice may be combined with the notice regarding amortization of rate case expense. The tariffs shall become effective for services rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475, F.A.C.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order provides for 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, we approve the rates established herein as temporary rates. Commercial shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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.

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

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, and,

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.

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

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

- 1) No 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Commercial shall 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., Commercial shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

PROOF OF ADJUSTMENTS

To ensure that the Utility adjusts its books in accordance with our decision, Commercial shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increase in the wastewater rates of Commercial Utilities, Division of Grace & Co., Inc. is approved as set forth in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that the Utility shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that the Utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which rate case expense is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates

and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Utility's request to modify its customer deposit tariff and establish a Non-Sufficient Funds (NSF) fee is approved. The NSF fee shall 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. The NSF fee shall 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 shall not be implemented until staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days after the date of the notice. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for the Utility on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that prior to implementation of any temporary rates, the Utility shall provide appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$29,428 for wastewater. Alternatively, the Utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that the Utility shall maintain a record of the amount of the bond and the amount of revenues that are subject to refund. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall 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 reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

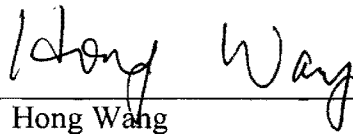
ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the

close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed when our staff has approved the revised tariff sheets and customer notices, the Utility has sent the notices to its customers, and our staff has received proof that the customers have received notice within 10 days after the date of the notice. Once our staff has verified all of the above actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 28th day of February, 2011.

ANN COLE
Commission Clerk

By: 

Hong Wang
Chief Deputy Commission Clerk

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 21, 2011.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

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	ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
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.	<u>(20,709)</u>
Total	<u>(\$10,569)</u>

INTANGIBLE PLANT

1. To reclassify Intangible Plant from UPIS.	\$105,677
2. To reflect appropriate Intangible Plant balance.	<u>52,201</u>
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.	<u>8,089</u>
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.	<u>(234)</u>
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. TEST YEAR ENDED 6/30/10 SCHEDULE OF WASTEWATER OPERATING INCOME					SCHEDULE NO. 3-A DOCKET NO. 100326-SU
	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)
To reflect increase in bulk wastewater service rates. | <u>\$14,471</u> |
| 2. | Contractual Services - Professional (731)
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. | <u>802</u> |
| | Subtotal | <u>(\$44,743)</u> |
| 4. | Regulatory Commission Expenses (765)
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. | <u>18</u> |
| | 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

WASTEWATER

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

To reflect the appropriate intangible plant amortization exp.	<u>\$5,847</u>
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3. TAXES OTHER THAN INCOME

To reflect appropriate RAFs.	<u>(\$539)</u>
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COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.
TEST YEAR ENDED 6/30/10
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 100326-SU

	TOTAL PER UTILITY	ADJUST- MENT	TOTAL PER COMMISSION
(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	38,781	(36,912)	1,869
	<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	COMMISSION APPROVED 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