

## Carol Purvis

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**From:** Chuck Hill  
**Sent:** Friday, August 05, 2011 3:56 PM  
**To:** Ann Cole; Carol Purvis; Selena Chambers  
**Subject:** FW: Request of Oral Modification to Item 5, August 9, 2011 Agenda, Docket No. 100126-WU - C.F.A.T. H2O, Inc.  
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**From:** Chuck Hill  
**Sent:** Friday, August 05, 2011 3:55 PM  
**To:** Marshall Willis  
**Cc:** Bart Fletcher; Andrew Maurey; Cheryl Bulecza-Banks; Connie Kummer; Jennie Lingo; Patti Daniel; Keino Young; Selena Chambers; Jim Varian; Roberta Bass; Baldwin English; Cayce Hinton; Katherine Fleming  
**Subject:** RE: Request of Oral Modification to Item 5, August 9, 2011 Agenda, Docket No. 100126-WU - C.F.A.T. H2O, Inc.

Approved

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**From:** Marshall Willis  
**Sent:** Friday, August 05, 2011 3:51 PM  
**To:** Chuck Hill  
**Cc:** Bart Fletcher; Andrew Maurey; Cheryl Bulecza-Banks; Connie Kummer; Jennie Lingo; Patti Daniel; Keino Young  
**Subject:** Request of Oral Modification to Item 5, August 9, 2011 Agenda, Docket No. 100126-WU - C.F.A.T. H2O, Inc.  
**Importance:** High

Staff requests approval to make an oral modification to Issue 8 of the recommendation for the above-referenced item. Item 5 relates to a PAA rate increase request by C.F.A.T. H2O, Inc. (C.F.A.T. or Utility). The modification is necessary in order to correctly reflect the 3-year average bad debt expense for the Utility's water system. The utility's discovery response incorrectly included the bad debt expense for both water and wastewater instead of the expense for water only. Therefore bad debt expense was overstated in staff's recommendation. The Statutory time frame to process this case has been waived by C.F.A.T. through the August 9, 2011, Commission Conference. With this modification, there are numerous fall-out changes to the recommendation which are reflected below. The specific modifications are in type and strike format and highlighted in yellow, as follows:

1) Page 10, Issue 4, Recommendation Paragraph and Staff Analysis Paragraph

**Issue 4:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$5,054 ~~\$5,247~~. (Fletcher)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class C utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. Staff has recommended adjustments to C.F.A.T.'s O&M expenses. As a result, staff recommends that working capital of \$5,054 ~~\$5,247~~ be approved. This reflects a decrease of \$855 ~~\$662~~ to the Utility's requested working capital allowance of \$5,909.

2) Page 11, Issue 5, Recommendation Paragraph and Staff Analysis Paragraph

**Issue 5:** What is the appropriate rate base for the test year ended December 31, 2009?

**Recommendation:** Consistent with other recommended adjustments, the appropriate rate base is \$288,414 ~~\$288,607~~. (Fletcher)

**Staff Analysis:** Consistent with other recommended adjustments, the appropriate rate base is \$288,414 ~~\$288,607~~. The schedule for rate base is attached as Schedule No. 1-A. The adjustments to rate base are shown on Schedule No. 1-B.

3) Page 14, Issue 8, Recommendation Paragraph

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**Issue 8:** Should any adjustments be made to the Utility's requested pro forma expenses?

**Recommendation:** Yes. Due the current economic climate, a 3-percent increase in salaries is more reasonable than the company's proposed 21 percent increase. Accordingly, salaries should be reduced by \$1,511. Further, based on a 3-year average balance, a representative amount of bad debt expense for ratemaking purposes is \$1,546 ~~\$3,093~~, which represents a decrease ~~an increase~~ of \$118 ~~\$1,429~~. (Fletcher)

4) Page 15, Issue 8, Last Paragraph of Staff Analysis

appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, C.F.A.T. should be entitled to bad debt expense of \$1,546 ~~\$3,093~~, which staff believes is representative of the Utility's bad debt expense. As a result, staff recommends that C.F.A.T.'s proposed bad debt expense of \$1,664 be decreased ~~increased~~ by \$118 ~~\$1,429~~.

5) Page 20, Issue 11, Recommendation Paragraph and Staff Analysis Paragraph

**Issue 11:** What is the test year operating loss before any revenue increase?

**Recommendation:** Based on the adjustments discussed in other issues, the test year operating loss is \$13,507 ~~\$45,053~~ before any revenue increase. (Fletcher)

**Staff Analysis:** This is primarily a "fall-out" issue subject to the resolution of other issues related to revenues, operating expenses, and rate base. As shown on Schedule No. 3-A, after applying staff's adjustments, the Utility's net operating loss is \$13,507 ~~\$15,053~~. Staff's adjustments to operating income are shown on Schedule No. 3-B.

6) Page 21, Issue 12, Recommendation Paragraph and Staff Analysis Paragraph

**Issue 12:** What is the appropriate revenue requirement?

**Recommendation:** The following revenue requirement should be approved:

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Wastewater	<u>\$43,579</u>	<u>\$31,980</u>	<u>\$75,559</u>	<u>73.38%</u>
		<u>\$33,614</u>	<u>\$77,190</u>	<u>77.43%</u>

(Fletcher)

**Staff Analysis:** The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A. This results in a revenue requirement of \$75,559 ~~\$77,190~~, which represents an increase of \$31,980 ~~\$33,614~~ or 73.38 ~~77.43~~ percent.

7) Page 23, Issue 13, Staff Analysis

using an across the board calculation of the 73.4% ~~77.4%~~ increase. These rate structures and their resulting bills are shown on the following table.

C.F.A.T. H2O, INC. STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS POST-REPRESSION ANALYSIS			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC/uniform gallonage charge rate Structure BFC = 66 percent		Two-tier inclining blocks – consumption of 0-3 kgals and 3+ kgals; rate factors of 0.54 and 1.0; BFC = 45.00 percent	
BFC	\$9.97	BFC	\$11.62
			\$11.87
Gallonage Charge, all kgals	\$1.63	0-3 kgals (no repression adjustment)	\$4.51
			\$4.60
		In excess of 3 kgals	\$8.08
			\$8.58
Typical Monthly Bills		Typical Monthly Bills	

Cons (kgal)		Cons (kgal)	
0	\$9.97	0	\$11.62 <del>\$11.87</del>
1	\$11.60	1	\$16.13 <del>\$16.47</del>
3	\$14.86	3	\$25.14 <del>\$24.08</del>
5	\$18.12	5	\$41.31 <del>\$42.84</del>
10	\$26.27	10	\$81.73 <del>\$85.73</del>
15	\$34.42	15	\$122.16 <del>\$128.62</del>
20	\$42.57	20	\$162.57 <del>\$171.51</del>
25	\$50.72	25	\$202.99 <del>\$214.40</del>
30	\$58.87	30	\$243.41 <del>\$257.29</del>
<b>Alternative 1</b>		<b>Alternative 2</b>	
Three-tiered inclining-blocks – consumption of 0-3 kgals, 3-6 kgals and 6+ kgals; rate factors at 1.0, 1.25 and 1.50; BFC = 45.00 percent		Across the board increase of 77.1%	
BFC	\$11.62 <del>\$11.87</del>	BFC	\$17.28 <del>\$17.66</del>
0-3 kgals	\$3.96 <del>\$4.94</del>	Gallorage Charge, all kgals	\$2.82 <del>\$2.89</del>
3-6 kgals	\$7.34 <del>\$7.81</del>		
In excess of 3 kgals	\$11.01 <del>\$11.72</del>		
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Cons (kgal)		Cons (kgal)	
0	\$11.62 <del>\$11.87</del>	0	\$17.28 <del>\$17.66</del>
1	\$15.58 <del>\$15.91</del>	1	\$20.10 <del>\$20.54</del>
3	\$23.49 <del>\$19.95</del>	3	\$25.75 <del>\$26.32</del>
5	\$38.17 <del>\$39.61</del>	5	\$31.40 <del>\$32.09</del>
10	\$89.56 <del>\$94.29</del>	10	\$45.53 <del>\$46.52</del>
15	\$144.62 <del>\$152.86</del>	15	\$59.65 <del>\$60.96</del>
20	\$199.68 <del>\$211.44</del>	20	\$73.77 <del>\$75.39</del>
25	\$254.74 <del>\$270.02</del>	25	\$87.90 <del>\$89.83</del>
30	\$309.80 <del>\$328.60</del>	30	\$102.02 <del>\$104.26</del>

## 8) Page 25, Issue 14, Recommendation Paragraph

**Issue 14:** What is the appropriate repression adjustment?

**Recommendation:** A repression adjustment is appropriate for this Utility. Test year residential kgals sold should be reduced by 1,718 ~~4,799~~ kgal to 6,739 ~~6,664~~ kgals, purchased power expense should be reduced by \$481 ~~\$504~~, chemical expense should be reduced by \$222 ~~\$232~~, and regulatory assessment fees (RAFs) should be reduced by \$33 ~~\$34~~. The final post-repression revenue requirement should be \$74,823 ~~\$76,422~~.

In order to monitor the effect of the rate structure and rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Thompson)

## 9) Page 25, Issue 14, Staff Analysis Third Paragraph

Therefore, based on this methodology, staff calculated that test year residential consumption for this Utility should be reduced by 1,718 ~~4,799~~ kgal, purchased power expense should be reduced by \$481 ~~\$504~~, chemical expense should be reduced by \$222 ~~\$232~~ and RAFs should be reduced by \$33 ~~\$34~~. The final post-repression revenue requirement should be \$74,823 ~~\$76,422~~. In order to

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

10) Page 27, Issue 15, Recommendation Paragraph and Staff Analysis First Paragraph

**Issue 15:** What are the appropriate rates for this Utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. Excluding miscellaneous service charges, the recommended water rates produce revenues of ~~\$74,823~~ ~~\$76,422~~. The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days of the date of the notice. (Thompson, Fletcher)

**Staff Analysis:** The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is ~~\$74,823~~ ~~\$76,422~~. As discussed in Issue 13, staff recommends that the appropriate rate structure for the water system's residential class is a continuation of the Utility's BFC/uniform gallonage charge. The BFC cost recovery percentage should be set at 45 percent. Staff recommends a continuation of the traditional BFC/uniform gallonage charge rate structure be applied to the general service rate class as well. As discussed in Issue 14, staff recommends that a repression adjustment be made. Applying these rate designs and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedule No. 4. These rates are designed to recover a post-repression revenue requirement of ~~\$74,823~~ ~~\$76,422~~.

11) Page 30, Issue 17, Recommendation Paragraph Staff Analysis Last Paragraph

**Issue 17:** In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, the Utility should be required to refund ~~19.13~~ ~~47-25~~ percent of water revenues under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made. (Fletcher)

12) Page 30, Issue 17, Staff Analysis Last Paragraph

Using the principles discussed above, the \$86,882 water revenue requirement granted in Order No. PSC-10-0739-PCO-WU for the interim test year is greater than the revenue requirement for the interim collection period of ~~\$70,260~~ ~~\$74,894~~. This results in a ~~19.13~~ ~~47-25~~ percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund ~~19.13~~ ~~47-25~~ percent of the water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made.

13) With regard to the fall-out changes to the schedules, staff has highlighted the numbers that changed in yellow as shown below:

Page 34

C.F.A.T. H20, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09		Schedule No. 1-A Docket No. 100126-WU			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$537,632	\$0	\$537,632	(\$25,880)	\$511,752
2 Land and Land Rights	19,500	0	19,500	0	19,500
3 Non-used and Useful Components	0	0	0	(73,770)	(73,770)

4	Accumulated Depreciation	(127,972)	0	(127,972)	24,247	(103,725)
5	CIAC	(114,421)	0	(114,421)	(10,512)	(124,933)
6	Amortization of CIAC	55,292	0	55,292	(756)	54,536
7	Acquisition Adjustment	46,269	(46,269)	0	0	0
8	Working Capital Allowance	0	5,909	5,909	(855)	5,054
9	<b>Rate Base</b>	<u>\$416,300</u>	<u>(\$40,360)</u>	<u>\$375,940</u>	<u>(\$87,526)</u>	<u>\$288,414</u>

Page 35

C.F.A.T. H20, Inc. Adjustments to Rate Base Test Year Ended 12/31/09		Schedule No. 1-B Docket No. 100126-WU
Explanation		Water
<u>Plant In Service</u>		
Agreed upon Audit Adjustments. (Issue 2)		<u>(\$25,880)</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment. (Issue 3)		<u>(\$73,770)</u>
<u>Accumulated Depreciation</u>		
Agreed upon Audit Adjustments. (Issue 2)		<u>\$24,247</u>
<u>CIAC</u>		
Agreed upon Audit Adjustments. (Issue 2)		<u>(\$10,512)</u>
<u>Accumulated Amortization of CIAC</u>		
Agreed upon Audit Adjustments. (Issue 2)		<u>(\$756)</u>
<u>Working Capital</u>		
Reflect appropriate working capital allowance. (Issue 4)		<u>(\$855)</u>

Page 36

C.F.A.T. H20, Inc. Capital Structure-Simple Average Test Year Ended 12/31/09					Schedule No. 2 Docket No. 100126-WU			
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$388,880	\$0	\$388,880	(\$140,893)	\$247,987	65.96%	5.69%	3.75%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	127,483	0	127,483	(46,188)	81,295	21.62%	10.85%	2.35%
5 Customer Deposits	18,167	0	18,167	(6,582)	11,585	3.08%	6.00%	0.18%
6 Shareholder Loan	<u>55,000</u>	<u>0</u>	<u>55,000</u>	<u>(19,927)</u>	<u>35,073</u>	<u>9.33%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$589,530</u>	<u>\$0</u>	<u>\$589,530</u>	<u>(\$213,590)</u>	<u>\$375,940</u>	<u>100.00%</u>	-	<u>6.28%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$388,880	(\$3,200)	\$385,680	(\$125,822)	\$259,858	90.10%	5.69%	5.13%

8/5/2011

9	Short-term Debt	0	0	0	0	0.00%	0.00%	0.00%		
10	Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%		
11	Common Equity	127,483	(112,064)	15,419	(5,030)	10,389	3.60%	11.16%	0.40%	
12	Customer Deposits	18,167	0	18,167	0	18,167	6.30%	6.00%	0.38%	
13	Shareholder Loan	<u>55,000</u>	<u>(55,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
14	<b>Total Capital</b>	<u>\$589,530</u>	<u>(\$170,264)</u>	<u>\$419,266</u>	<u>(\$130,852)</u>	<u>\$288,414</u>	<u>100.00%</u>	-	<u>5.91%</u>	
							<b>LOW</b>	<b>HIGH</b>		
							RETURN ON EQUITY	<u>10.16%</u>	<u>12.16%</u>	
							OVERALL RATE OF RETURN	<u>5.87%</u>	<u>5.94%</u>	

Page 37

C.F.A.T. H2O, Inc. Statement of Water Operations Test Year Ended 12/31/09						Schedule No. 3-A Docket No. 100126-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$43,579</u>	<u>\$51,500</u>	<u>\$95,079</u>	<u>(\$51,500)</u>	<u>\$43,579</u>	<u>\$31,980</u> 73.38%	<u>\$75,559</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$38,235	\$9,037	\$47,272	(\$6,843)	\$40,429		\$40,429
3 Depreciation	18,923	0	18,923	(5,055)	13,868		13,868
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	2,957	2,318	5,275	(2,487)	2,788	1,439	4,227
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 <b>Total Operating Expense</b>	<u>60,115</u>	<u>11,355</u>	<u>71,470</u>	<u>(14,384)</u>	<u>57,086</u>	<u>1,439</u>	<u>58,525</u>
8 <b>Operating Income</b>	<u>(\$16,536)</u>	<u>\$40,145</u>	<u>\$23,609</u>	<u>(\$37,116)</u>	<u>(\$13,507)</u>	<u>\$30,541</u>	<u>\$17,035</u>
9 <b>Rate Base</b>	<u>\$416,300</u>		<u>\$375,940</u>		<u>\$288,414</u>		<u>\$288,414</u>
10 <b>Rate of Return</b>	<u>-3.97%</u>		<u>6.28%</u>		<u>-4.68%</u>		<u>5.91%</u>

Page 38

C.F.A.T. H2O, Inc. Adjustment to Operating Income Test Year Ended 12/31/09		Schedule No. 3-B Docket No. 100126-WU
Explanation	Water	
<u>Operating Revenues</u>		
Remove requested final revenue increase.		<u>(\$51,500)</u>
<u>Operation and Maintenance Expense</u>		
1 Agreed upon-audit adjustments. (Issue 2)		(\$2,862)
2 Reflect appropriate Pro Forma Salary. (Issue 8)		(1,511)
3 Reflect appropriate Pro Forma Bad Debt Expense. (Issue 8)		(118)
4 To reflect appropriate allocated costs. (Issue 9)		(2,163)

5	Reflect appropriate rate case expense. (Issue 10)	(189)
	Total	<u>(\$6,843)</u>
	<u>Depreciation Expense - Net</u>	
	Remove net depreciation on non-U&U adjustment above. (Issue 3)	<u>(\$5,055)</u>
	<u>Taxes Other Than Income</u>	
1	RAFs on revenue adjustments above.	(\$2,318)
2	Remove property taxes on non-U&U adjustment above. (Issue 3)	(169)
	Total	<u>(\$2,487)</u>

Page 39

<b>C.F.A.T. H20, Inc.</b>		<b>Schedule No. 4</b>			
<b>Water Monthly Service Rates</b>		<b>Docket No. 100126-WU</b>			
<b>Test Year Ended 12/31/09</b>					
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Final</b>	<b>Four-Year Rate Reduction</b>
<b>Residential</b>					
Base Facility Charge All Meter Sizes:	\$9.97	\$19.65	\$21.48	\$11.62	\$0.82
Gallorage Charge - Per 1,000gallons	\$1.63	\$3.21	\$3.51		
Gallorage Charge 0-3kgals				\$4.51	\$0.32
Gallorage Charge Over 3kgals				\$8.08	\$0.57
<b>General Service</b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.97	\$19.65	\$21.48	\$11.62	\$0.82
1"	\$24.93	\$49.13	\$53.77	\$29.05	\$2.05
1-1/2"	\$49.86	\$98.25	\$107.42	\$58.10	\$4.10
2"	\$79.78	\$157.21	\$171.89	\$92.96	\$6.57
3"	\$159.58	\$314.46	\$343.80	\$185.92	\$13.14
4"	\$249.33	\$491.32	\$519.73	\$290.50	\$20.52
Gallorage Charge, per 1,000 Gallons	\$1.63	\$3.21	\$3.51	\$5.48	\$0.39
<b>Typical Residential Bills 5/8" x 3/4" Meter</b>					
3,000 Gallons	\$14.86	\$29.28	\$32.01	\$25.67	
5,000 Gallons	\$18.12	\$35.71	\$39.03	\$42.83	
10,000 Gallons	\$26.27	\$51.77	\$56.58	\$85.73	

8/5/2011