STATE OF FLORIDA

MARSHALL WILLIS, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

May 21, 2012

Regency Utilities, Inc.
Attn: Ms. Alexa Daniels
One Independent Drive, Suite 3120
Jacksonville, Florida 32202

Re: Staff-Assisted Rate Case for Regency Utilities, Inc. in Duval County, Docket No. 110282-WS

Dear Ms. Daniels:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), Florida Administrative Code, by all interested persons at the following location:

Regency Utilities, Inc.
1 Independent Drive, Suite 3120
Jacksonville, FL 32202

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

Shannon J. Hudson
Regulatory Analyst IV

Enclosures

SH/as

cc: Division of Economic Regulation (Maurey, Smith, Daniel, Fletcher, Hudson, Simpson)
Office of General Counsel (Teitzman, Robinson)
Office of Commission Clerk (Docket No. 110282-WS)
Mr. Martin S. Friedman, Esquire

State of Florida

Public Service Commission

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

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

DATE: May 11, 2012

TO: Andrew Maurey, Bureau Chief Bureau of Rate Filings

FROM: Shannon Hudson, Regulatory Analyst IV SH
Avy Smith, Regulatory Analyst II AS
Robert Simpson, Engineering Specialist II RS
Sonica Bruce, Regulatory Analyst III SB

RE: Docket No. 110282-WS – Application for staff-assisted rate case in Duval County by Regency Utilities, Inc.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

Regency Utilities, Inc. (Regency or Utility) is a Class C water and wastewater utility in Duval County. According to the Utility's 2010 Annual Report, total gross revenues were $160,856 and $94,471 for water and wastewater, respectively. The total operating expenses were $256,246 for water and $130,714 for wastewater. Regency operates the on-site water delivery, wastewater collection, and fire protection systems providing service to Regency Square Mall (Mall) in Jacksonville, Florida. Regency customers are all general service and tenants of the Mall. Regency serves approximately 138 water customers and 125 wastewater customers. The Utility is located in the St. Johns River Water Management District (SJRWMD or District), which does not have a water shortage order issued at this time; however, there is a year-round two-day a week irrigation rule.

Regency was previously granted water and wastewater certificates to serve the Mall in 1975.[1] The certificates were amended twice[2] to extend Regency's service territory to the area surrounding the Mall. On April 10, 2001, Regency and JEA closed on a transaction whereby Regency transferred its water and wastewater plants to JEA. All of Regency's service territory was transferred in the transaction except for the Mall, which JEA declined to serve directly. By Order No. PSC-02-0060-FOF-WS, the Commission approved the transfer.[3] Since Regency would thereafter be reselling water and wastewater services pursuant to a reseller exemption in Section 367.022(8), Florida Statutes (F.S.), the Order also cancelled Regency's water and wastewater certificates.

On February 26, 2008, Regency filed an application for water and wastewater certificates and authorization to charge rates in excess of the purchase price. As its reason, Regency stated that it could no longer support its operations while billing customers at the same rates for water and wastewater services which it pays to purchase the services from JEA. By Order No. PSC-08-0611-PAA-WS, the Commission approved Regency's application for water and wastewater certificates and issued certificate Nos. 641-W and 551-S.[4]

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed August 2, 2012, for the August 14, 2012, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or

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[1] See Order No. 6448, issued January 9, 1975, in Docket Nos. 74425-W and 74426-S, In Re: Application of Regency Utilities, Inc., for certificates to operate a water and sewer utility in Duval County, Fla.

[2] See Order No. 8045, issued November 16, 1977, in Docket No. 770504-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Water Certificate No. 197-W and Sewer Certificate No. 143-S in Duval County, Florida. Section 367.061, Florida Statutes and Order No. 9518, issued September 3, 1980, in Docket No. 800151-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Certificate Nos. 143-S and 143-W (stet) to include territory in Duval County, Florida.

[3] See Order No. PSC-02-0060-FOF-WS, issued January 8, 2002, in Docket No. 010986-WS, In Re: Notice of sale of assets of Regency Utilities, Inc. in Duval County to Jacksonville Electric Authority, and request for cancellation of Certificate Nos. 197-W and 143-S.

[4] See Order No. PSC-08-0611-PAA-WS, issued September 22, 2008, in Docket No. 080113-WS, In re: Application for certificates to provide water and wastewater service in Duval County by Regency Utilities, Inc.

other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

Discussion of Issues

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

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the June 7, 2012, customer meeting. (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 components of water and 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.

Regency is a consecutive system that purchases bulk water and wastewater service from the JEA and provides water, wastewater, and fire protection services to the Mall in Jacksonville. The Utility operates and maintains the water distribution and wastewater collection systems in the Mall. The Utility is in compliance with all state and local regulations for consecutive water and wastewater systems.

Staff reviewed the Commission's Customer Activity Tracking System for the past three years and found no complaints. The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the June 7, 2012 customer meeting.

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

Preliminary Recommendation: The water distribution and the wastewater collection systems should be considered 100 percent used and useful (U&U). (Simpson)

Staff Analysis: There has been no growth in the past five years and there are no plans for service area expansion. Further, the existing distribution and collection systems are needed to serve the existing customers. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

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

Preliminary Recommendation: The appropriate average test year rate base for the Utility is $368,957 for water and $48,318 for wastewater. (Hudson)

Staff Analysis: Rate base for this Utility has not been established. Staff selected a test year ended September 30, 2011, for this rate case. Regency was unable to provide documentation for its water, wastewater, and fire protection assets. In order to calculate an appropriate balance for Utility Plant In Service, staff used documentation from the sale to JEA in 2001 and the certification docket in 2008. Based on the documentation, staff was able to determine appropriate rate base components for the Utility. A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS): The Utility recorded a test year UPIS balance of $1,131,493 for water and $36,942 for wastewater. Staff has increased both water and wastewater by $25,000 each to reflect organization costs incurred during the certification docket. Staff has increased water by $11,401 to reflect the appropriate balance for meters. Also, staff has increased water and wastewater by $373 to reflect the appropriate account balance for office equipment. Staff's recommended adjustments to UPIS result in increases of $36,774 for water and $25,373 for wastewater. Staff recommends UPIS balances of $1,168,267 for water and $62,315 for wastewater.

Non-used and Useful Plant: As discussed in Issue 2, Regency's water distribution and wastewater collection systems should be considered 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded test year CIAC of $0 for both water and wastewater. Staff has determined the appropriate CIAC to be $21,980 for water and $30,260 for wastewater and increased this account, accordingly.

Accumulated Depreciation: Regency recorded balances for accumulated depreciation of $711,791 for water and $28,079 for wastewater. 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 $840,717 for water and $31,185 for wastewater. As a result, accumulated depreciation has been increased by $128,926 for water and $3,106 for wastewater. In addition, staff has decreased accumulated depreciation by $16,727 for water and $786 for wastewater to reflect averaging adjustments. Staff recommends accumulated depreciation of $823,990 and $30,399 for water and wastewater, respectively.

Accumulated Amortization of CIAC: The Utility recorded amortization of CIAC balances of $0 for both water and wastewater. Amortization of CIAC has been calculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be increased by $21,672 for water and $27,933 for wastewater. In addition, this account should be decreased by $315 for water and $382 for wastewater to reflect averaging adjustments. Staff's adjustments to this account result in amortization of CIAC balances of $21,357 for water and $27,551 for wastewater.

Working Capital Allowance: Regency recorded working capital of $34,741 for water and $6,158 for wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $25,303 for water and $19,110 for wastewater (based on O&M expense of $202,424/8 for water and $152,880/8 for wastewater). Staff has decreased the working capital allowance by $9,438 for water and increased it by $12,952 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is $368,957 for water and $48,318 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

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

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.70 percent. (Hudson)

Staff Analysis: According to staff's audit, the Utility's capital structure consists of common equity of $627,318 and customer deposits of $5,400. The Utility currently does not have a tariff for customer deposits. Regency was collecting the customer deposits prior to being recertified by the Commission. The customer deposits were not addressed in the certification docket. The Utility continued to collect a $50 customer deposit from its customers after its certification. For purposes of the staff report, staff has included the customer deposits in the capital structure. However, for the final recommendation, staff will evaluate the appropriate customer deposit level. In Issue 13, staff has recommended customer deposits on a going-forward basis for the Utility.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.[5] Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.70 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[5] See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, and PSC-11-0326-CO-WS, issued August 2, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

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

Preliminary Recommendation: The appropriate test year revenue for this Utility is $161,813 for water and $107,009 for wastewater. (Bruce, Smith)

Staff Analysis: Regency recorded total revenue of $265,347 for water and $0 for wastewater. Staff has annualized revenues based on test year billing determinants and existing rates and determined the Utility's recorded revenue to be $161,813 for water and $107,009 for wastewater. Staff has decreased test year revenues for water by $103,534 and increased wastewater test year revenues by $107,009. Staff recommends test year revenue of $161,813 and $107,009 for water and wastewater, respectively. Water and wastewater test year revenue is shown on Schedule Nos. 3-A and 3-B, respectively.

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

Preliminary Recommendation: The appropriate amount of operating expense for Regency is $238,513 for water and $163,722 for wastewater. (Smith)

Staff Analysis: Regency recorded operating expense of $325,513 for water and $57,439 for wastewater, for the test year ended September 30, 2011. 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:

Salaries and Wages - Employees (601/701) – Regency recorded $17,484 in this account for water and $10,269 for wastewater. The Utility provided recent W-2 forms for support documentation of the salaries and wages for two staff accountants who are responsible for customer relations and accounting duties. The Utility also included the salary of $6,339 for water and $174 for wastewater in this account for Ms. Alexa Daniels, the Utility's Chief Financial Officer (CFO). Staff believes that Ms. Daniels' salary should be reclassified to salaries and wages – officers. Accordingly, staff has reclassified these amounts to salaries and wages - officers. Staff recommends salaries and wages – employees expense of $11,145 for water and $10,095 for wastewater.

Salaries and Wages - Officers (603/703) – Regency did not record any amount of salaries and wages – officers in this account. As stated above, staff has made an adjustment to reclassify $6,339 and $174 for water and wastewater, respectively to this account for the CFO's salary. Ms. Daniels' salary is allocated at five percent to the Utility. Based on copies of W-2 forms provided by the Utility, the CFO's total salary allocated to Regency should be $6,850. The Utility's allocation methodology was 63 percent for water and 37 percent for wastewater. It is Commission practice to allocate common costs between water and wastewater based on the number of customers. Therefore, staff has determined the appropriate allocation to be 52.5 percent for water and 47.5 percent for wastewater based on the number of customers. As such, staff has made an adjustment to decrease water by $2,743 and increase wastewater by $3,080 to reflect the appropriate salary allocation for Regency's CFO.

Mr. Robert Stein serves as the president for Regency, and performs 15 hours of consulting work per week, for an annual total of $12,600. Staff believes that this amount is reasonable based on the number of hours worked per week. The Utility recorded Mr. Stein's fees in contractual services – other. However, staff has determined that Mr. Stein's salary should be included in salaries and wages – officers based on the fact that the Utility recorded benefits and paid payroll taxes for Mr. Stein. To reflect the reclassification adjustment, staff has increased this account by $7,938 for water and $4,662 for wastewater. Based on the allocation methodology mentioned above, staff believes the appropriate salary for Mr. Stein is $6,615 ($12,600 x 52.5 percent) for water and $5,985 ($12,600 x 47.5 percent) for wastewater. Therefore, staff has decreased this account by $1,327 ($6,615 - $7,938) for water and increased this account by $1,327 ($5,985 - $4,662) for wastewater to reflect staff's recommended allocation. Staff recommends salaries and wages – officers expense of $10,208 ($6,339 - $2,743 + $7,938 - $1,327) for water and $9,242 ($174 + $3,080 + $4,662 + $1,327) for wastewater.

Employee Pensions and Benefits (604/704) – Regency recorded $7,428 for water and $4,363 for wastewater in this account for employee pensions and benefits. The Utility's records supported annual pensions and benefits totaling $8,635 for water and $7,821 for wastewater. Accordingly, staff has made an adjustment to increase this account by $1,207 for water and $3,458 for wastewater. Staff recommends employee pensions and benefits expense of $8,635 for water and $7,821 for wastewater.

Purchased Water and Purchased Wastewater Treatment (610/710) – Regency recorded $182,610 in this account for purchased water and $0 for purchased wastewater treatment. Staff has reviewed invoices from JEA and determined purchased water expense of $102,049 and purchased wastewater treatment expense of $81,501. As such, staff has reduced Account No. 610 by $80,561 for water and increased Account No. 710 by $81,501 for wastewater. In addition, the Utility has provided staff with JEA's increased bulk rates that will go into effect on October 1, 2012. The increase in JEA's bulk rates will result in a $20,274 increase to purchased water expense and a $14,819 increase to purchased wastewater treatment. Therefore, staff has made a pro forma adjustment to increase this account by $20,274 for water and $14,819 for wastewater to reflect the increase in bulk rates. For the final recommendation, staff will request the Utility's most recent 12 months of purchased water/wastewater invoices from JEA to reflect the appropriate pro forma adjustment for the increase in JEA's bulk rates. The Commission will vote on the Utility's final recommendation on August 14, 2012. The final rates which reflect the pro forma increase for purchased water/wastewater can not be implemented prior to October 1, 2012. Staff recommends total purchased water and wastewater treatment expenses of $122,323 and $96,320, respectively.

Purchased Power (615/715) – Regency did not record any purchased power for either water or wastewater in this account. Staff has reviewed invoices totaling $281 for electric charges for the Utility's fire pump, and increased this account by $281 for water. Also, staff has reviewed invoices totaling $1,715 for electric charges for the Utility's lift station, and increased this account by $1,715 for wastewater. Staff recommends purchased power expense of $281 for water and $1,715 for wastewater.

Materials and Supplies (620/720) – Regency recorded $5,525 for water and $3,245 for wastewater in this account for materials and supplies. The Utility's records substantiated materials and supplies expense of $1,921 for water and $1,740 for wastewater. Therefore, staff had made an adjustment to decrease this account by $3,604 for water and $1,505 for wastewater to remove the unsupported balance. Staff recommends materials and supplies expense of $1,921 for water and $1,740 for wastewater.

Contractual Services – Professional (631/731) – Regency recorded $2,834 for water and $1,665 for wastewater in this account for contractual services – professional. Staff has reviewed the following invoices in Table 6-1:

Table 6-1

Contractual Services - Professional		
Name	Description	Amount
KPMG	U.S. Income Tax Return Review	$850
Burton & Associates	Certificate Application	64
Burton & Associates	Valuation Analysis	3,533
Total		$4,447

The Utility utilized an allocation methodology of 63 percent for water and 37 percent for wastewater. As stated above, staff has determined the appropriate allocation to be 52.5 percent for water 47.5 percent for wastewater. Thus, contractual services – professional should be $2,333 for water and $2,113 for wastewater. Staff has decreased this account by $501 for water and increased this account by $448 for wastewater to reflect the appropriate allocation. Staff recommends contractual services – professional expense of $2,333 for water and $2,113 for wastewater.

Contractual Services – Other (636/736) – Regency recorded $32,705 for water and $13,209 for wastewater in this account for contractual services – other. Staff has reclassified $7,938 for water and $4,662 for wastewater to salaries and wages – officers for the Utility's president, Mr. Robert Stein. While calculating the appropriate total for this account, staff discovered that Mr. Stein's salary was recorded twice. Therefore, staff has made a separate adjustment to remove the duplication of his salary. Finally, staff has made an adjustment to decrease water by $1,368 and increase wastewater by $868 to reflect staff's recommended allocation. Staff recommends contractual services – other expense of $15,461 ($32,705 - $7,938 - $7,938 - $1,368) for water and $4,753 ($13,209 - $4,662 - $4,662 + $868) for wastewater.

Regulatory Commission Expense (665/765) – Regency recorded $0 for both water and wastewater in this account. Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated $231 for postage expense, $210 for printing expense, and $26 for envelopes. The above results in $468 for postage, mailing notices, and envelopes. The Utility paid a $2,000 rate case filing fee. The Utility has estimated through completion consultant fees totaling $8,010. For purposes of the staff report, staff has included this amount. However, staff will update the cost of regulatory commission expense for the final recommendation.

The total rate case expense including postage, mailing notices, envelopes, filing fees and consultant fees is $10,478. Based on the allocation methodology of 52.5 percent for water and 47.5 percent for wastewater, staff has calculated regulatory commission expense of $5,498 for water and $4,980 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of $1,375 for water and $1,245 for wastewater.

Bad Debt Expense (670/770) – Regency recorded $1,304 for water and $766 for wastewater in this account for bad debt expense. Based on Utility's invoices, staff has determined the appropriate amount of bad debt expense to be $4,478. Applying an allocation methodology of

52.5 percent for water and 47.5 percent for wastewater, staff's recommended bad debt expense is $2,350 for water and $2,129 for wastewater.

Miscellaneous Expense (675/775) – Regency recorded $4,525 for water and $2,657 for wastewater in this account for miscellaneous expense. The Utility included annual membership fees for employee credit cards, and membership renewal fees to the Florida Institute of Certified Public Accountants. Staff believes that these expenses are not utility related. Therefore, staff has made an adjustment to decrease water by $1,719 and wastewater by $116 for various memberships that are non-utility related expenses. The Utility incurred $150 for filing its corporate annual report with the Florida Department of State and included this amount in taxes other than income. Again, staff has determined the appropriate allocation to be 52.5 percent for water and 47.5 percent for wastewater. As such, staff has reclassified this amount to this account and increased this account by $79 ($150 x 52.5 percent) for water and $71 ($150 x 47.5 percent) for wastewater to reflect the annual filing fee. Staff recommends miscellaneous expense of $2,884 ($4,525 - $1,719 + $79) for water and $2,613 ($2,657 - $116 + $71) for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in a decrease of $75,500 for water and an increase of $103,612 for wastewater. Staff's recommended O&M expense is $202,424 for water and $152,880 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – Regency recorded $35,183 for water and $885 for wastewater in this account for net depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Also, staff has calculated amortization of CIAC based on composite rates. Staff has decreased net depreciation expense by $14,404 for water and $76 for wastewater. Staff recommends net depreciation expense of $20,779 for water and $809 for wastewater.

Taxes Other Than Income (TOTI) – As shown on Table 6-2 below, Regency recorded $12,406 for water and $7,286 for wastewater in this account for TOTI.

Table 6-2

	Water	Wastewater
Property Taxes	$4,577	$2,688
Payroll Taxes	0	0
Local Business Tax	496	291
Annual Report Filing Fee	95	56
Regulatory Assessment Fees	7,239	4,251
Total	$12,406	$7,286

Staff has reviewed Duval County's non-ad valorem and ad valorem tax assessment notices. Based on these notices, staff has determined the appropriate property taxes are $1,180 for water and $1,068 for wastewater. Therefore, staff has reduced this account by $3,396 ($1,180 - $4,577) for water and $1,620 ($1,068 - $2,688) for wastewater to reflect property taxes paid by the Utility. Staff has calculated payroll tax of $1,362 for water and $996 for wastewater.

Accordingly, staff has increased this account by $1,362 and $996 for water and wastewater, respectively to reflect staff's calculated payroll tax.

Based on staff's recommended test year revenues, the Utility's RAFs should be $7,282 for water and $4,815 for wastewater. Staff has increased this account by $43 and $564 for water and wastewater, respectively, to reflect the appropriate RAFs. As discussed in Issue 7, revenues have been increased by $108,799 for water and $62,369 for wastewater to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn the recommended return of investment. As a result, TOTI should be increased by $4,896 for water and $2,807 for wastewater to reflect RAFs of 4.5 percent on the recommended incremental change in revenues. Staff recommends TOTI of $15,310 ($12,406 - $3,396 + $1,362 + $43 + $4,896) for water and $10,033 ($7,286 - $1,620 + $996 + $564 + $2,807) for wastewater.

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

Operating Expenses Summary – The application of staff's recommended adjustments to Regency's recorded test year operating expenses result in staff's recommended operating expenses of $238,513 for water and $163,722 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for Regency, and if so, what is the appropriate margin?

Preliminary Recommendation: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for the Utility's wastewater system only. The margin should be 10 percent of O&M expenses. (Hudson)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenues of less than $250,000 per system may petition the Commission for staff assistance in alternative rate setting.

Although Regency did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology as an alternative means to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Regency's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.[6] This order also discussed criteria related to the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.[7] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.[8]

In Order No. PSC-96-0357-FOF-WU, the Commission described criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria outlined in Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. In the instant case, the rate base is substantially less than the level of O&M expense. Based on the staff audit, the adjusted rate base for the test year is $48,318, while adjusted O&M expenses are $152,880.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in

[6] Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.
[7] Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.
[8] See Order No. PSC-10-0167-PAA-WU, issued March 23, 2010, in Docket No. 090346-WU, In re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System.

this case only applies to small utilities with gross annual revenues of $250,000 or less. Regency is a Class C utility and the recommended revenue requirement of $169,861 is below the threshold level for Class B status ($250,000 per system). The Utility's service area is the Mall has not had any growth in the last five years and is essentially built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. The Utility is in compliance with all state and local regulations for consecutive a wastewater systems. The quality of service appears satisfactory.

4) Whether the Utility is developer-owned. The current utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. Regency purchases wastewater treatment from JEA. Staff has calculated the operating ratio method without consideration of the purchased wastewater treatment costs.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility. In these cases, the Commission applied a 10 percent margin.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Regency's capital structure is 100 percent equity and has no interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much greater operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to Regency amounts to $4,204, this is enough to cover only a 2.75 percent variance in O&M expenses. Staff believes $4,204 is an insufficient financial cushion for this Utility.

Third, if the return on rate base method is applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from staff's estimates, Regency could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. Because the Utility's amount of rate base is so small, the return on rate base method would provide Regency only $4,204 in operating income to cover revenue and expense variances. If the Utility's operating expenses increase and revenues decrease, Regency would not have the funds required for day to day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would provide. Therefore, in order to provide Regency with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expenses for determining the revenue requirement for the wastewater system.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is $270,612 for water and $169,378 for wastewater. (Hudson, Smith)

Staff Analysis: Regency should be allowed an annual increase of $108,799 (67.24 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn an 8.70 percent return on its investment. Using the operating ratio method for calculating the revenue requirement for wastewater, the Utility should be allowed an annual increase in revenue of $62,369 (58.28 percent). This will allow Regency the opportunity to recover its expenses and provide a 10 percent operating margin over its O&M expense. The calculations are as follows:

Table 8-1

	Water
Adjusted Rate Base	$368,957
Rate of Return	x .0870
Return on Rate Base	$32,099
Adjusted O&M expense	202,424
Depreciation expense (Net)	20,779
Amortization	0
Taxes Other Than Income	15,310
Income Taxes	0
Revenue Requirement	$270,612
Less Test Year Revenues	161,813
Annual Increase	$108,799
Percent Increase/(Decrease)	67.24%

Table 8-2

	Wastewater
Adjusted O&M Expenses	$152,880
Less Purchased Wastewater Treatment (PWT)	96,320
Adjusted O&M Less PWT	$56,560
Rate of Return/Operating Margin	x .1000
Operating Margin	$ 5,656
Adjusted O&M expense	152,880
Depreciation expense (Net)	809
Amortization	0
Taxes Other Than Income	10,033
Income Taxes	0
Revenue Requirement	$169,378
Less Test Year Revenues	107,009
Annual Increase	$62,369
Percent Increase/(Decrease)	58.28%

Issue 9: What are the appropriate rate structures for the Utility's water and wastewater systems?

Preliminary Recommendation: The appropriate rate structures for the Utility's water and wastewater systems' non-residential class is a continuation of the base facility charge (BFC)/gallonage charge rate structure. The water system's BFC cost recovery should be set at 40 percent and the wastewater BFC cost recovery should be set at 50 percent. (Bruce)

Staff Analysis: Order No. PSC-02-0060-FOF-WS addressed the transfer of the Regency's water and wastewater plants to JEA on April 1, 2001. This transfer included all of the Utility's service area except for the Regency Square Mall. For this reason, the Utility purchases its water and wastewater treatment from JEA and resells these services to the tenants of the Mall. Furthermore, the transfer did not include the facilities and wells associated with the fire protection services. Therefore, the Utility continues to maintain and monitor the fire protection system as required to provide fire protection water to the service area.

Water: Currently, the Utility serves 128 non-residential customers and 10 irrigation customers. Regency's rates for the non-residential class consist of a BFC/gallonage charge rate structure. The BFC is $16.99 and the gallonage charge is $1.60 per 1,000 gallons.

The Utility is located in the SJRWMD. Since the Utility purchases its potable water and wastewater treatment from JEA and resells these services to the tenants of the Mall, the Utility is considered non-jurisdictional to the District for the potable water system. However, the District does have jurisdiction of the facilities associated with the fire protection services.

Based on staff's analysis of the non-residential customer base, the average monthly consumption is 32.29 kgals. However, given that the customer base consists of non-residential customers only, staff recommends a continuation of the current BFC/charge rate structure. This rate structure is typical for non-residential customers. Furthermore, this rate structure is considered conservation-oriented because customers' bills increase as their consumption increases. Also, the water system's fixed cost recovery should be set at 40 percent.

Regency provides water for the Mall's fire protection system. The water is supplied from a dedicated well and is piped, without treatment, to a storage tank. The water is available upon demand to all customers of the Mall. Typically, private fire protection rates are one-twelfth of the base facility charge of the meter supplying the water. In this instance, the water is not measured by a meter. Therefore, staff is unable to design a private fire protection rate using this methodology. The Mall is the exclusive user of the non-potable water provided for fire protection. The tenants of the Mall benefit from the existence of the fire protection system. Staff's recommended revenue requirement allows Regency to recover a return on its investment and expenses related to fire protection. Based on the above, staff believes the costs associated with the fire protection service are best recovered through the monthly rates of the customers.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 40 percent.

Wastewater: Regency's current rate structure consists of a BFC/gallonage rate structure for the wastewater systems' non-residential customers. The monthly BFC is $18.96 and the usage charge is $3.54 per 1,000 gallons.

Staff's initial allocation for the wastewater BFC cost recovery for the non-residential class is 29.62 percent. This BFC allocation is lower than the Commission's practice of setting the BFC allocation to at least 50 percent. For this reason, staff recommends setting the BFC allocation to 50 percent due to the capital intensive nature of wastewater plants.

In addition, typically it is Commission practice to set a monthly wastewater gallonage cap. However, it is not appropriate in this case due to the fact that the customers are non-residential only.

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The wastewater system's BFC cost recovery should be set at 50 percent.

Issue 10: What are the appropriate rates for Regency?

Preliminary Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The recommended rates should be designed to produce revenue of $270,612 for water and $169,378 for wastewater, excluding miscellaneous service charges. Regency 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 within 10 days of the date of the notice. (Bruce)

Staff Analysis: The recommended rates should be designed to produce revenue of $270,612 for the water system and $169,378 for the wastewater system. There are no miscellaneous service revenues for the water and wastewater systems. The appropriate rate structure for Regency's non-residential customers is a continuation of the BFC/uniform gallonage charge rate structure.

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 within 10 days of 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 water and wastewater rates are shown on Schedule Nos. 4-A and 4-B.

Issue 11 What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Preliminary Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees 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. Regency 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 the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson, 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 rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is $1,455 for water and $1,434 for wastewater. Using Regency's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates 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?

Preliminary 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. Regency 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. (Hudson, Smith)

Staff Analysis: This recommendation proposes an increase in water and wastewater 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. Regency 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.

Regency 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 $114,180. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Regency 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 Regency 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 Regency;

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 Regency, 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.

Regency 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 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 13: What are the appropriate customer deposits for Regency?

Recommendation: The appropriate customer deposits for 5/8" x 3/4" meters are $239 and $145 for water and wastewater, respectively. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Pursuant to Section 367.091, F.S., this statute authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to the amount of two months' bills based on estimated average consumption for the customer class.[9]

Staff notes that consumption-based charges are based on the prior month's meter readings. It generally takes five to seven days from the meter reading date until customers are billed. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply and the customer has been provided at least five working days' written notice. It is likely that the service would not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer deposit to recover this two-month period of service consistent with past Commission practice, it is also consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.[10]

The Utility's proposed initial customer deposits are $239 and $145 for water and wastewater, respectively. These amounts were calculated in compliance with Rule 25-30.311(7), F.A.C. These charges are consistent with Commission rules and staff recommends their approval.

[9] See Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

[10] See Order Nos. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

Issue 14: 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 National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Regency 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. (Hudson, Smith)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Regency 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.

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 SCHEDULE OF WATER RATE BASE			SCHEDULE NO. 1-A DOCKET NO. 110282-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$1,131,493	$36,774	$1,168,267
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(21,980)	(21,980)
5. ACCUMULATED DEPRECIATION	(711,791)	(112,199)	(823,990)
6. AMORTIZATION OF CIAC	0	21,357	21,357
7. WORKING CAPITAL ALLOWANCE	34,741	(9,438)	25,303
8. WATER RATE BASE	$454,443	($85,486)	$368,957

REGENCY UTILITIES, INC. **SCHEDULE NO. 1-B**
TEST YEAR ENDED 9/30/11 **DOCKET NO. 110282-WS**
SCHEDULE OF WASTEWATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$36,942	$25,373	$62,315
2.	LAND & LAND RIGHTS	0	0	0
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	0	(30,260)	(30,260)
5.	ACCUMULATED DEPRECIATION	(28,079)	(2,320)	(30,399)
6.	AMORTIZATION OF CIAC	0	27,551	27,551
7.	WORKING CAPITAL ALLOWANCE	6,158	12,952	19,110
8.	WASTEWATER RATE BASE	$15,021	$33,297	$48,318

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 110282-WS
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. To reflect the appropriate balance to Acct. Nos. 301/351.	$25,000	$25,000
2. To reflect the appropriate balance to Acct. No. 334.	11,401	0
3. To reflect the appropriate balance to Acct. Nos. 340/390.	373	373
Total	$36,774	$25,373
CIAC		
To reflect the appropriate CIAC.	($21,980)	($30,260)
ACCUMULATED DEPRECIATION		
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	($128,926)	($3,106)
2. To reflect averaging adjustments.	16,727	786
Total	($112,199)	($2,320)
AMORTIZATION OF CIAC		
1. To reflect amortization of CIAC based on composite rates.	$21,672	$27,933
2. To reflect averaging adjustments.	(315)	(382)
Total	$21,357	$27,551
WORKING CAPITAL ALLOWANCE		
To reflect 1/8 of test year O & M expenses.	($9,438)	$12,952

REGENCY UTILITIES, INC.
TEST YEAR ENDED 9/30/11
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 110282-WS

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	TOTAL COMMON EQUITY	$627,318	$0	$627,318	($215,443)	$411,875	98.71%	8.74%	8.63%
2.	CUSTOMER DEPOSITS	5,400	0	5,400	0	5,400	1.29%	6.00%	0.08%
3.	TOTAL	$632,718	$0	$632,718	($215,443)	$417,275	100.00%		8.70%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.74%	9.74%
OVERALL RATE OF RETURN	7.72%	9.69%

REGENCY UTILITIES, INC.
TEST YEAR ENDED 9/30/11
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 110282-WS

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$265,347	($103,534)	$161,813	$108,799 67.24%	$270,612
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$277,924	($75,500)	$202,424	$0	$202,424
3.	DEPRECIATION (NET)	35,183	(14,404)	20,779	0	20,779
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	12,406	(1,992)	10,414	4,896	15,310
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$325,513	($91,896)	$233,617	$4,896	$238,513
8.	**OPERATING INCOME/(LOSS)**	($60,166)		($71,804)		$32,099
9.	**WATER RATE BASE**	$454,443		$368,957		$368,957
10.	**RATE OF RETURN**	(13.24%)		(19.46%)		8.70%

REGENCY UTILITIES, INC. — SCHEDULE NO. 3-B
TEST YEAR ENDED 9/30/11 — DOCKET NO. 110282-WS
SCHEDULE OF WASTEWATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$0	$107,009	$107,009	$62,369 58.28%	$169,378
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$49,268	$103,612	$152,880	$0	$152,880
3.	DEPRECIATION (NET)	885	(76)	809	0	809
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	7,286	59	7,227	2,807	10,033
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$57,439	$103,477	$160,916	$2,807	$163,722
8.	**OPERATING INCOME/(LOSS)**	($57,439)		($53,907)		$5,656
9.	**WASTEWATER RATE BASE**	$15,021		$48,318		$48,318
10.	**RATE OF RETURN**	(382.39%)		(111.57%)		10.00%

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 110282-WS PAGE 1 OF 2
	WATER	WASTEWATER
OPERATING REVENUES		
To reflect the appropriate test year revenues.	($103,534)	$107,009
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages Employees (601/701)		
To reclassify A. Daniels' salaries to Acct. No. 603/703.	($6,339)	($174)
2. Salaries and Wages Officers (603/703)		
a. To reclassify A. Daniels' salary from Acct. Nos. 601/701.	$6,339	$174
b. To reflect appropriate salary for A. Daniels.	(2,743)	3,080
c. To reclassify R. Stein's salary from Acct. Nos. 636/736.	7,938	4,662
d. To reflect appropriate allocation of R. Stein's salary.	(1,327)	1,327
Subtotal	$10,208	$9,242
3. Employees Pension and Benefits (604/704)		
a. To reflect the appropriate allocation between systems.	$1,207	$3,458
4. Purchased Water/Purchased Wastewater (610/710)		
a. To reflect test year purchased water/purchased wastewater.	($80,561)	$81,501
b. To reflect pro forma adjustment for increase in JEA rates.	20,274	14,819
Subtotal	($60,287)	$96,320
5. Purchased Power (615/715)		
To reflect invoices for electric charges.	$281	$1,715
6. Materials & Supplies (620/720)		
To remove unsupported balance.	($3,604)	($1,505)
7. Contractual Services - Professional (631/731)		
To reflect invoices for professional services.	($501)	$448
(O&M EXPENSES CONTINUED ON NEXT PAGE)		

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 110282-WS PAGE 2 OF 2
O&M EXPENSES CONTINUED	WATER	WASTEWATER
8. Contractual Services - Other (636/736)		
a. To reclassify R. Stein's salary to Account Nos. 603/703.	($7,938)	($4,662)
b. To remove R. Stein's salary recorded twice.	(7,938)	(4,662)
c. To reflect the appropriate allocation between systems.	(1,368)	868
Subtotal	($17,244)	($8,456)
9. Regulatory Expense (665/765)		
To amortize rate case expense over 4 years.	$1,375	$1,245
10. Bad Debt Expense (670/770)		
To reflect appropriate bad debt expense.	$1,046	$1,363
11. Miscellaneous Expense (675/775)		
a. To remove non-utility expenses.	($1,719)	($116)
b. To include annual filing fee.	79	71
Subtotal	($1,641)	($44)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**($75,500)**	**$103,612**
DEPRECIATION EXPENSE		
To reflect the appropriate net depreciation expense.	($14,404)	($76)
TAXES OTHER THAN INCOME		
1. To reflect the appropriate property taxes.	($3,396)	($1,620)
2. To reflect the appropriate payroll taxes.	1,362	996
3. To reflect the appropriate RAFs.	43	564
Total	($1,992)	($59)

REGENCY UTILITIES, INC.			SCHEDULE NO. 3-D
TEST YEAR ENDED 9/30/11			DOCKET NO. 110282-WS
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$17,484	($6,339)	$11,145
(603) SALARIES AND WAGES - OFFICERS	0	10,208	10,208
(604) EMPLOYEE PENSIONS AND BENEFITS	7,428	1,207	8,635
(610) PURCHASED WATER	182,610	(60,287)	122,323
(615) PURCHASED POWER	0	281	281
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	5,525	(3,604)	1,921
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,834	(501)	2,333
(635) CONTRACTUAL SERVICES - TESTING	1,213	0	1,213
(636) CONTRACTUAL SERVICES - OTHER	32,705	(17,244)	15,461
(640) RENTS	9,412	0	9,412
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	12,884	0	12,884
(665) REGULATORY COMMISSION EXPENSE	0	1,375	1,375
(670) BAD DEBT EXPENSE	1,304	1,046	2,350
(675) MISCELLANEOUS EXPENSES	4,525	(1,641)	2,884
TOTAL	$277,924	($75,500)	$202,424

REGENCY UTILITIES, INC.			SCHEDULE NO. 3-E
TEST YEAR ENDED 9/30/11			DOCKET NO. 110282-WS
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$10,269	($174)	$10,095
(703) SALARIES AND WAGES - OFFICERS	0	9,242	9,242
(704) EMPLOYEE PENSIONS AND BENEFITS	4,363	3,458	7,821
(710) PURCHASED SEWAGE TREATMENT	0	96,320	96,320
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	0	1,715	1,715
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	3,245	(1,505)	1,740
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,665	448	2,113
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	13,209	(8,456)	4,753
(740) RENTS	5,527	0	5,527
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	7,567	0	7,567
(765) REGULATORY COMMISSION EXPENSES	0	1,245	1,245
(770) BAD DEBT EXPENSE	766	1,363	2,129
(775) MISCELLANEOUS EXPENSES	2,657	(44)	2,613
TOTAL	$49,268	$103,612	$152,880

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 MONTHLY WATER RATES			SCHEDULE NO. 4-A DOCKET NO. 110282-WS
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
General Service			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	$16.99	$38.90	$0.21
3/4"	$25.49	$58.35	$0.31
1"	$42.48	$97.25	$0.52
1-1/2"	$84.96	$194.50	$1.03
2"	$135.93	$311.20	$1.66
3"	$271.87	$622.40	$3.31
4"	$424.79	$972.50	$5.17
6"	$849.58	$1,945.00	$10.34
General Service Gallonage Charge			
Per 1,000 Gallons	$1.60	$2.52	$0.01
Typical 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$21.79	$46.46	
5,000 Gallons	$24.99	$51.50	
10,000 Gallons	$32.99	$64.10	

REGENCY UTILITIES, INC. TEST YEAR ENDED 9/30/11 MONTHLY WASTEWATER RATES			SCHEDULE NO. 4B DOCKET NO. 110282-WS
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
General Service			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	$18.96	$25.67	$0.20
3/4"	$28.44	$38.51	$0.30
1"	$47.40	$64.18	$0.49
1-1/2"	$94.80	$128.35	$0.99
2"	$151.68	$205.36	$1.58
3"	$303.37	$410.72	$3.16
4"	$474.01	$641.75	$4.94
6"	$948.03	N/A	N/A
General Service Gallonage Charge			
Per 1,000 Gallons	$3.54	$6.75	$0.05
Typical 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$29.58	$45.92	
5,000 Gallons	$36.66	$59.42	
10,000 Gallons	$54.36	$93.17	