State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: March 28, 2013

TO: Office of Commission Clerk (Cole)

FROM: Division of Accounting and Finance (VanEsselstine, Fletcher, Maurey)
Division of Economics (Thompson, Hudson)
Division of Engineering (McRoy)
Office of the General Counsel (Lawson)

RE: Docket No. 120152-WS – Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

AGENDA: 04/09/13 – Regular Agenda – Proposed Agency Action – Except for Issues 20 and 21 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 5-Month Effective Date Waived Through 04/09/13

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\120152.RCM.DOC

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Case Background

Pluris Wedgefield, Inc. (Wedgefield or Utility) is a Class B utility providing service to approximately 1,598 water and 1,567 wastewater customers in Orange County. For the year ended December 31, 2011, the Utility reported operating revenues of $985,446 for water and $731,559 for wastewater. Additionally, the Utility reported an operating income of $158,969 for water and an operating loss of $127,780 for wastewater.

The Utility's last rate case was in 2008 for water and 1988 for wastewater.[1] On September 8, 2009, Wedgefield was transferred from Wedgefield Utilities, Inc. to Pluris Wedgefield, LLC.[2] The Utility became Pluris Wedgefield, Inc. by Order No. PSC-09-0739-FOF-WS, issued November 9, 2009.[3]

On July 19, 2012, Wedgefield filed its application for the rate increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple average period ended December 31, 2011.

The Utility was granted interim rates designed to generate annual revenues of $1,350,198 for water and $907,479 for wastewater. This represented an annual revenue increase of $362,443 (36.69 percent) for water and $175,476 (23.97 percent) for wastewater.[4]

Pluris requested final rates designed to generate annual revenues of $1,379,982 for water and $913,888 for wastewater. This represents a revenue increase of $394,536 (40.04 percent) for water and $182,329 (24.92 percent) for wastewater. Subsequent to filing its Minimum Filing Requirements (MFRs), Pluris submitted a request for additional pro forma plant in the amount of $92,209 for repairs made to its water plant and a new bio filter for its water treatment facilities. The Utility also requested additional pro forma expenses in the amount of $110,069 relating to the addition of call center staff, the addition of a Controller, and an increase in the Utility's property taxes. However, the Utility did not officially change its requested revenue requirement.

This recommendation addresses the Utility's requested final rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

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[1] See Order Nos. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.; and 20270, issued November 1988, in Docket No. 871208-WS, In re: Application by Econ Utilities Corporation for rate increase in Orange County.

[2] See Order No. PSC-09-0610-FOF-W8, issued September 8, 2009, in Docket No. 090232-WS, In re: Joint application for authority to transfer assets and Certificate Nos. 404-Wand 341-8 in Orange County from Wedgefield Utilities, Inc. to Pluris Wedgefield, LLC.

[3] See Order No. PSC-09-0739-FOF-WS, issued November 9, 2009, in Docket No. 090418-WS, In re: Application for name change on Certificate Nos. 404-W and 341-S in Orange County from Pluris Wedgefield, LLC to Pluris Wedgefield, Inc.

[4] See Order No. PSC-12-0554-PCO-WS, issued October 17, 2012, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Pluris Wedgefield, Inc. satisfactory?

Recommendation: Yes. The quality of service provided by Pluris Wedgefield, Inc. is satisfactory. (McRoy)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components include the quality of the utility's product, the operating condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from the utility's customers and the utility complaint files are reviewed. The utility's current compliance with the regulations of the Department of Environmental Protection (DEP) and the Water Management District are also considered.

Quality of Utility's Product and Operational Condition of Plants and Facilities

In Orange County, the water and wastewater programs are regulated by the St. Johns River Water Management District (SJRWMD) and DEP. On November 12, 2011, DEP conducted a Sanitary Survey of the Wedgefield water treatment plant (WTP) with no deficiencies noted during the inspection.

On July 19, 2012, DEP conducted a Compliance Evaluation Inspection of the Wedgefield wastewater treatment plant (WWTP). The WWTP was found to be in substantial compliance. However, the report indicated the effluent quality was out of compliance due to a high Total Suspended Solids value reported on the Utility's April 2012 Discharge Monitoring Report. DEP indicated the exceedence was properly reported and no further action was required by the Utility.

Wedgefield is currently in compliance with all of the required chemical analyses and has met all required standards for both water and wastewater operations. The Utility has no outstanding consent orders or warning letters. A staff field inspection of Wedgefield was conducted on December 5, 2012. Staff found no apparent problems with the operations of either the water or wastewater facilities. On the morning of December 6, 2012, staff observed the Utility conducting its annual sewer line inspections and the installation of two new isolation valves at the WTP. The new isolation values should allow the Utility to isolate affected areas of the service territory when a line break occurs. Based on a review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff recommends that the quality of drinking water delivered to the customers, the wastewater effluent quality, and the operating condition of the Utility's water and wastewater plants and facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on December 5, 2012, at the Wedgefield Country Club in Orlando, Florida. Over 200 customers attended the meeting with 24 customers providing verbal comments. Citing affordability concerns, the attendees were generally against the proposed rate increases for water and wastewater. Water quality in particular was cited as a reason for not justifying the rate increases. Although it was acknowledged that the water provided by the Utility met DEP health and safety standards, general consensus among the attendees was that the water was considered unfit to consume and not worth the rate increase because of frequent taste, odor, and discoloration problems. Several customers indicated the quality had not improved since the last rate case, while other customers made comments about public noticing concerning Precautionary Boil Water Notices (PBWNs). The Utility met with and responded to 23 of the 24 customers who spoke at the customer meeting. The Utility was unable to meet with one Wedgefield Home Owner Association representative, stating that several attempts to meet with him had failed. The Utility attempted to address each the of customer's concerns raised at the customer meeting. After meeting with the Utility, several customers submitted letters acknowledging that the Utility had met with them and addressed their concerns. A report titled "Customer Comments Follow-up" and the customer letters were submitted to the Commission by the Utility and placed in the docket file.[5]

The collection and distribution system for the Wedgefield community was built in the early 1960's. Recently, a significant number of water line breaks have occurred. Several customers expressed concern relating to frequent water outages due to water line breakage. One particular area of the distribution system where a lot of the current outages have occurred is located at the area of the intersection of Majestic Street and Archer Boulevard. After further discussion with Wedgefield, it was noted that this line is constructed with Asphalt Concrete (AC) pipe. AC pipe was used in the 60's and 70's and as it ages, it becomes very difficult to repair if a leak develops. Wedgefield estimates there is approximately 19,200 linear feet of AC pipe ranging in sizes of 4, 6, and 8 inches within the distribution system. To help reduce the number of customers impacted by line breaks, the Utility has installed two new isolation valves at the WTP. The isolation values should allow the Utility to better isolate affected areas of the service territory.

Staff questioned the Utility on its PBWN procedures. The Utility informed staff that when PBWNs are required, customers are notified by multiple methods of communication consisting of robo calls, notifying the Wedgefield Country Club office, door hangers and signs. For all PBWNs, no matter how many customers are affected, an outbound telephone message is made to all affected customers who have an active phone number posted on their account. Once the PBWN is rescinded, another reverse robo call is issued to the same customers notifying them that the PBWN is no longer in effect. Depending on what time the disruption of service or water outage occurs, Wedgefield's field staff notifies the Wedgefield Country Club office. This method is most commonly used when a PBWN is issued during normal business hours. Once the PBWN is rescinded, Wedgefield staff notifies the office that the PBWN is no longer in effect. If the PBWN affects a small number of customer connections, the PBWN is attached to door hangers

[5] See Document No. 00407-13.

and left on the door of the affected customers' homes. Historically, water outages are typically limited to specific streets or portions of the distribution system. Once the PBWN is rescinded, notices are hung on the same doors with the news that the PBWN is no longer in effect. The Utility further indicates that in the case of a PBWN that requires notifying the whole community, signs are placed at both entrances to the Wedgefield development. Once the PBWN is rescinded, the signs are updated to reflect the rescission date.

Pursuant to Rule 25-30.251(2), F.A.C, the Utility shall notify the Commission of any interruptions in service which affect ten percent or more of its customers. Notification to the Commission shall be made within one work day of notification by the Utility that such an interruption has occurred, and within one work week after service has been restored. The Utility shall file a complete report of the interruption to the Commission. During the past outages, the Utility notified DEP and its customers, but did not notify the Commission. Since Wedgefield's purchase of the system in 2009, this was the first time that the Utility did not notify the Commission per the rule. During staff's field inspection, staff addressed the oversight with the Utility, and the Utility verbally agreed to notify the Commission per the rule on future outages.

Several customers also expressed considerable interest in having Orlando Utilities Commission (OUC) provide service to the community based on a perceived superior water quality. Staff reviewed the latest DEP Consumer Confidence Reports (CCR) for both OUC and Wedgefield and did a comparison for five of the most commonly recognized categories for drinking water analysis: Copper, Lead, Chlorine, Haloacetic Acids (HAA5) and Total Trihalomethanes (TTHM). The results are listed in the table below.

Table 1-1

Wedgefield vs. OUC Commonly recognized categories for drinking water analysis				
Item	Wedgefield	Level Exceeded (Y/N)	OUC	Level Exceeded (Y/N)
Copper (ppm)	0.07	N	0.48	N
Lead (ppb)	0.005	N	0.48	N
Chlorine (ppm)	1.75	N	2.09* (annual average 1.04)	N
Haloacetic Acid (HAA5) (ppb)	38.2	N	31* (annual average 18)	N
Total Trihalomethanes (TTHM) (ppb)	55.2	N	88* (annual average 49)	N

* OUC note – Compliance levels are based on running annual averages.

Based on the published CCR reports, both utilities produced water similar in chemical content and both were in compliance for all five of the categories.

There are currently two active water complaints on file at the Commission, and there were no complaints indicated for wastewater. The Utility's complaint log for the test year (2011) indicated that approximately six customer complaints were received. The majority of the water complaints during this time dealt with billing while one complaint was regarding discolored water. The Commission did receive approximately 60 letters. The letters were generally against the proposed rate increases. Water quality, in particular, was cited as a reason for not justifying the rate increase.

Staff believes the Utility's efforts to respond to customer concerns demonstrates its willingness to address customer satisfaction. Treating the water used for all purposes by all customers to the highest customer expectation can come at significant cost to customers. For most systems, point-of-use treatment systems are often the most cost effective mechanism to achieve individual customer quality objectives. Although there have been water line breaks that have inconvenienced customers, staff believes that the Utility has notified its customers and reestablished service as required by rule. Therefore, staff recommends that Wedgefield's attempt to address customer satisfaction is satisfactory.

Conclusion

Staff recommends that, pursuant to Rule 25-30.433(1), F.A.C., Wedgefield's quality of product, operating condition of its plants and facilities, and its attempt to address customer satisfaction are satisfactory.

RATE BASE

Issue 2: Should the audit adjustments to rate base and net operating income to which the Utility and staff agree be made?

Recommendation: Yes. The following adjustments should be made to rate base and net operating income as set forth in Table 2-2 below. (VanEsselstine, Fletcher)

Staff Analysis: The Utility was afforded an opportunity to address all of the findings issued by the auditing staff and provide additional support documentation for those areas it felt were unjustified. On December 7, 2012, the Utility provided its response to Audit Finding No. 2 that included information pertaining to unsupported plant additions (discussed in Issue 3). As the Utility did not respond to the other audit findings contained in the report, staff believes these adjustments should be considered agreed upon audit adjustments.

Table 2-1

Audit Findings	Description of Audit Adjustments
Finding No. 1	To correctly reflect the appropriate adjustments to plant, deprecation expense and accumulated depreciation from the prior order.
Finding No. 3	To correctly reflect the appropriate balance of the land associated with the Utility's water plant.

Based on the above, staff believes that the following adjustments should be made:

Table 2-2

Water				
Audit Adjustments	Plant	Land	Accum. Depreciation	Depreciation Expense
Finding No. 1	$95,740		($51,596)	$5,597
Finding No. 3		($3,964)		
Adjustment Totals	$95,740	($3,964)	($51,596)	$5,597
Wastewater				
Audit Adjustments	Plant	Land	Accum. Depreciation	Depreciation Expense
Finding No. 1	($118,384)		$51,596	($4,976)
Finding No. 3				
Adjustment Totals	($118,384)		$51,596	($4,976)

Issue 3: Should the contested audit adjustments to rate base be made?

Recommendation: Yes. The Utility's wastewater plant should be reduced by $135,285. Accordingly, corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by $17,184 and $4,318, respectively. (VanEsselstine, Fletcher)

Staff Analysis: The Utility provided partial responses to requests for support documentation relating to Audit Finding No. 2, reduction to the Utility's wastewater plant for unsupported additions. Based on the audit, audit staff recommended a reduction of the Utility's wastewater plant in the amount of $161,862, with corresponding reductions in accumulated depreciation of $20,982 and depreciation expense of $5,150.

In its response to the audit report, Wedgefield provided additional support documentation in the amount of $26,577. As a result, plant, accumulated depreciation, and depreciation expense were recalculated. Staff notes that the Utility should not be precluded from receiving a return on its investment in plant in a subsequent rate case if more information becomes available to the Utility. Based on the above, staff believes the Utility's wastewater plant should be reduced by $135,285 ($161,862 - $26,577). Accordingly, corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by $17,184 and $4,318, respectively.

Issue 4: Should the Commission approve any pro forma plant additions?

Recommendation: Yes. The appropriate pro forma plant additions are $86,203 for water and $3,103 for wastewater. This results in an incremental increase of $41,358 for water and decrease of $7,979 for wastewater from the Utility's initial filing. Corresponding adjustments should also be made to decrease accumulated depreciation by $44,863 for water and $9,235 for wastewater and decrease depreciation expense by $2,028 for water and $391 for wastewater. Additionally, pro forma property taxes should be increased by $2,243 for water and $207 for wastewater. (McRoy, VanEsselstine)

Staff Analysis: The Utility requested in its MFR filing several pro forma plant improvements to be included in the instant docket in the amount of $44,665 for water and $11,082 for wastewater. These pro forma plant items included Variable Frequency Drives (VFD), weir replacements, and work on the Utility's Supervisory Control and Data Acquisition (SCADA) system. Staff believes that the pro forma additions are reasonable and prudent because they will help extend the life of the water and wastewater facilities and address several other maintenance issues.

As a part of staff's review relating to the prudency of these additions, staff requested a statement of why each addition is necessary and a copy of all invoices and support documentation for the additions. In response to a staff request, Wedgefield provided invoices from E&R Mechanical totaling $50,893 for water and $12,412 for wastewater, as well as the necessary permit from DEP for the addition of the VFD. Therefore, staff recommends a $6,228 ($50,893 - $44,665) increase for water and a $1,330 ($12,412 - $11,082) increase for wastewater. However, the Utility did not include a pro forma retirement adjustment for the replacement of the weirs at its wastewater facilities. When the original cost is not known, or the year that retired plant was placed in service, it is Commission practice to determine the retirement cost by using 75 percent of the replacement cost.[6] In accordance with Commission practice, staff recommends wastewater plant and accumulated depreciation both be reduced by $9,309 ($12,412 x 75 percent). This results in a net plant reduction of $7,979 ($1,330 - $9,309) for wastewater.

Further, the Utility requested additional pro forma plant subsequent to its MFR filing in the amount of $92,209 for repairs made to its water plant and a new bio filter for its water treatment facilities. Staff reviewed the support documentation provided by the Utility and believes these adjustments are warranted. Staff recommends that $550 for employee time be removed as non-recurring, and $11,440 be removed as duplicative with the pro forma amount that was initially requested in the Utility's MFRs. However, staff recommends disallowance of employee time related to work on the Utility's SCADA system that staff believes could have taken place during normal business hours. Staff's recommended pro forma plant increase does include employee time that was incurred outside normal business hours in connection to the

[6] See Order Nos. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Utility's pipe breakages. Based on the above, staff recommends an increase of $80,219 ($92,209 - $550 - $11,440) associated with these pro forma items. However, the Utility did not include a pro forma retirement adjustment for the additional pro forma plant. In accordance with Commission practice, staff recommends that the recommended amount for plant and accumulated depreciation each be netted against $45,089 ($80,219 x 75 percent) to reflect the associated plant retirements.

Based on the above, staff recommends that the appropriate pro forma plant additions are $86,203 for water and $3,103 for wastewater. This results in an incremental increase of $41,358 ($6,228 + $80,219 - $45,089) for water and decrease of $7,979 ($1,330 - $9,309) for wastewater from the amounts requested in the Utility's initial filing. Using the depreciable life pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to decrease accumulated depreciation by $44,863 for water and $9,235 for wastewater. In addition, depreciation expense should be decreased by $2,028 for water and $391 for wastewater. Finally, pro forma property taxes should be increased by $2,243 for water and $207 for wastewater.

Issue 5: What are the Used and Useful percentages of the Utility's water and wastewater systems?

Recommendation: Staff recommends that the Utility's WTP and storage be considered 100 percent used and useful (U&U). The Utility's water distribution system should be considered 85.1 percent U&U. As a result, corresponding adjustments are necessary for the non-U&U water distribution plant. Accordingly, water rate base should be reduced by $9,787. Corresponding adjustments should be made to increase depreciation expense by $302 and reduce property taxes by $894. The Utility's WWTP should be considered 72.1 percent U&U. The Utility's wastewater collection system should be considered 85.1 percent U&U. Accordingly, wastewater rate base should be reduced by $14,186. Corresponding adjustments should be made to increase depreciation expense by $163 and reduce property taxes by $2,465. (McRoy, VanEsselstine)

Staff Analysis: In its application, the Utility asserts that the WTP is 100 percent, WWTP is 72.1 percent, and the water distribution and wastewater collection systems are 85.1 percent U&U. Below is a discussion for each facility.

Water Treatment Plant

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is determined by dividing the peak demand by the firm reliable capacity (FRC) of the WTP. Because the system has storage facilities, the calculation is in gallons per day (gpd). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

The WTP has two wells, rated at 400 and 600 gallon per minute (gpm). Pursuant to Rule 25-30.4325(6)(b), F.A.C., the FRC of a water treatment system with storage, excluding the largest well, is 384,000 (400 x 60 x 16) gpd. During the test year, the single maximum day peak demand was 567,000 gallons, and it occurred on May 2, 2011, based on the Utility's Monthly Operating Reports. Fire hydrants are located throughout the service area. It does not appear that there was a fire, line break, or other unusual occurrence on that day. Therefore, pursuant to Rule 25-30.4325(1)(d), F.A.C., a fire flow allowance of 500 gpm for 2 hours (60,000 gpd) should be included in the U&U analysis. The Utility did not request any allowance for growth.

The Utility's F-1 schedule in the MFRs indicates the unaccounted for water was 7.64 percent of the amount produced, which is not excessive. Pursuant to Rule 25-30.4325, F.A.C., Excessive Unaccounted for Water (EUW) is unaccounted for water in excess of 10 percent of the amount pumped.

Pursuant to Rule 25-30.4325(5), F.A.C., staff recommends that the WTP is 100 percent U&U based on a peak day of 567,000 gpd, a fire flow allowance of 60,000 gpd, EUW of 0 gpd, and FRC of 384,000 gpd.

Ground Storage Tank

Rules 25-30.4325(8) and (9), F.A.C., provide that the U&U percentage for a storage tank is determined by dividing the peak demand by the usable capacity of the tank. The Utility has a 350,000-gallon ground storage tank with the bottom of the tank below the centerline of the pumping unit. Therefore, pursuant to Rule 25-30.4325(9)(b), F.A.C., the usable capacity of the tank is 90 percent of the capacity or 315,000 gpd. Because the usable storage capacity is less than the peak day demand (567,000 gpd), the storage tank should be considered 100 percent U&U, pursuant to Rule 25-30.4325(8), F.A.C.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage for a WWTP is determined by dividing the customer demand, less excessive infiltration and inflow, plus a growth allowance. The rule also contains a provision for consideration of other factors, such as whether the service area is built out, whether the permitted capacity differs from design capacity, and whether flows have decreased due to conservation or reduction in the number of customers.

The current DEP permitted capacity is 330,000 gpd for the WWTP based on Annual Average Daily Flows (AADF). The AADF during the test year was 238,000 gpd. Staff did not identify any excessive infiltration and inflow in the collection system. The Utility did not request any allowance for growth. Staff agrees with the Utility's position that, pursuant to Rule 25-30.432, F.A.C., and using the AADF during the test year, the WWTP should be considered 72.1 percent U&U.

Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and wastewater collection systems are determined by dividing the number of customers connected to the systems by the number of lots available for service. The average number of connections during the test year was 1,594 Equivalent Residential Connection (ERCs). An annual customer growth rate of 6.5 ERCs was estimated with a statutory growth period of 5 years which equates to a total of 33 additional ERCs. The distribution and collection systems were designed to serve a total of 1,911 ERCs. Therefore, staff agrees with the Utility's position that, pursuant to Rule 25-30.432, F.A.C., the water distribution and wastewater collection systems should be considered 85.1 (1,594 + 33 / 1,911) percent U&U.

Conclusion

Staff recommends that the Utility's WTP and storage be considered 100 percent used and useful (U&U). The Utility's water distribution system should be considered 85.1 percent U&U. As a result, corresponding adjustments are necessary for the non-U&U water distribution plant. Accordingly, water rate base should be reduced by $9,787. Corresponding adjustments should be made to increase depreciation expense by $302 and reduce property taxes by $894. The Utility's WWTP should be considered 72.1 percent U&U. The Utility's wastewater collection system should be considered 85.1 percent U&U. Accordingly, wastewater rate base should be reduced by $14,186. Corresponding adjustments should be made to increase depreciation expense by $163 and reduce property taxes by $2,465.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $70,969 for water and $72,121 for wastewater. This represents a reduction of $3,370 for water and $3,361 for wastewater. (VanEsselstine, Fletcher)

Staff Analysis: In its MFRs, the Utility reflected a working capital allowance of $74,339 for water and $75,482 for wastewater. Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, whereby the working capital allowance is based on one-eighth of operations and maintenance (O&M) expense. The Utility has properly filed its allowance for working capital using the formula method. However, based on staff's recommended level of O&M expenses and adjustments in other issues, staff recommends that a working capital allowance of $70,969 for water and $72,121 for wastewater be approved. This represents a reduction of $3,370 for water and $3,361 for wastewater.

Issue 7: What is the appropriate rate base for the test year ended December 31, 2011?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2011, is $4,439,796 for water and $885,369 for wastewater. (VanEsselstine, Fletcher)

Staff Analysis: In its MFRs, the Utility recorded rate base of $4,334,962 for water and $1,086,549 for wastewater. Staff calculated Wedgefield's water and wastewater rate bases using the Utility's MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate simple average rate base for the test year ended December 31, 2011, is $4,439,796 for water and $885,369 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

Issue 8: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate Return on Equity (ROE) is 10.88 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (VanEsselstine, Fletcher)

Staff Analysis: The Utility requested an ROE of 11.16 percent. Although the Utility correctly utilized the current leverage formula, staff recommends certain adjustments to the Utility's capital structure as discussed in Issue 9. These adjustments resulted in a higher equity ratio for the test year and thus a lower recommended ROE. Based on the current leverage formula and an equity ratio of 42.97 percent, the appropriate ROE is 10.88 percent.[7] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[7] See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-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 9: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: The appropriate weighted average cost of capital, including the proper components, amounts, and cost rates associated with the capital structure, is 8.36 percent. (VanEsselstine, Fletcher)

Staff Analysis: As shown on MFR Schedule D-1, Wedgefield requested an overall cost of capital of 8.33 percent. However, staff believes there are adjustments that should be made to the Utility's capital structure.

First, on Schedule A-19 of its filing, the Utility included "Advances from Associated Companies" in its long-term debt balance. In response to a staff data request, the Utility noted that the advance has a zero percent cost rate. The Commission has previously held that debt from "associated companies" with no interest payments made should be treated as common equity.[8] In accordance with Rule 25-30.433(4), F.A.C., staff recommends that $252,431 of the Utility's long-term debt be reclassified as common equity.

Second, on Schedule D-1 of its filing, the Utility did not include "Deferred Income Tax" in its capital structure. However, the Utility recorded a deferred income tax asset of $3,179 for 2010 and a deferred income tax liability of $23,221 in 2011. In response to a staff data request, the Utility noted that Wedgefield does not record deferred income taxes because the Utility has historically operated in a net loss position and does not expect to pay these taxes; therefore, any calculated deferred income taxes have been fully reserved. However, in accordance with Rule 25-30.433(3), F.A.C., staff calculated the simple average of U&U debit deferred tax offsetting the net U&U credit deferred income tax. Therefore, staff recommends the inclusion of $9,444 of deferred income tax credit be included in the Utility's capital structure.

Based on the above, staff's recommended capital structure yields an overall cost of capital of 8.36 percent.[9] Schedule No. 2 contains staff's recommended capital structure.

[8] See Order Nos. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, In re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation, p. 20; and PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 011451-WS, In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County, p. 8.

[9] This represents a 3-basis point reduction to the requested overall cost of capital, which equates to a reduction of approximately $1,000 from the total company requested revenue requirement.

NET OPERATING INCOME

Issue 10: What is the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenues for Wedgefield are $983,812 for water and $732,003 for wastewater. CIAC for water should be increased by $8,410. (Thompson)

Staff Analysis: Wedgefield recorded total test year revenues of $985,446 for water and $731,559 for wastewater. The water revenues included $945,414 of service revenues and $40,032 of miscellaneous revenues. The Utility did not include any miscellaneous revenues for the wastewater system.

Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff recommends adjustments to the test year water service revenues. The Utility incorrectly billed residential irrigation customers $5.02 per 1,000 gallons which was the general service gallonage charge. The Commission-approved rate structure for residential irrigation customers was an inclining block rate structure. Staff adjusted the water test year revenues by $452 to correct this error. The Utility has corrected its billing for residential irrigation to reflect the Commission-approved tariff rates. In addition, the test year service revenues were adjusted by $2,307 to reflect the Utility's billing determinants and the rates in effect during the test year. Therefore, staff recommends that the test year water service revenues be increased by $2,759 to reflect total test year water service revenues of $948,173.

Staff also made several adjustments to test year miscellaneous revenues. The Utility recorded $330 of meter installation charges as miscellaneous revenues. Staff reduced miscellaneous revenues and increased CIAC for water by $330 to properly record the meter installation charges.

Further, in 2010, Wedgefield began offering customers the ability to make online payments through a third party vendor. Wedgefield collected $2 per online payment transaction, a portion of which was recorded as miscellaneous revenues, and the remainder was remitted to a third party vendor. The Utility's Commission-approved tariff does not authorize the collection of an online payment fee. As of August 2012, the Utility discontinued the online payment fee. The Utility indicated it may seek to establish a tariff rate at a later date for an online payment fee.

Wedgefield indicated that from October 2010 to August 2012 it collected $18,544 of online payment fees and retained $8,080 of that amount. During the test year, the Utility recorded miscellaneous revenues of $7,906 related to the collection of the online payment fees. Staff contacted the Utility to determine if it could make customer-specific refunds to those customers who paid the online payment fees. Wedgefield indicated it does not have a method readily available to determine which customers would be entitled to a refund and cannot quantify the work that would be required to make the customer-specific refund determination. As result, staff recommends that the net amount the Utility retained as online payments fees from October 2010 to August 2012, $8,080, be recorded as CIAC in lieu of a refund. By recording the online payment fees to CIAC, it will benefit the general body of rate payers by decreasing rate base. In addition, test year miscellaneous revenues should be reduced by $7,906 to remove the online payment fees recorded during the test year.

The Utility decreased miscellaneous revenues by $12,595 when it reversed a prior year accrual. Wedgefield's reversal understates test year miscellaneous revenues. Staff increased miscellaneous revenues to remove the reversal adjustment. Also, the Utility recorded an accrual in the amount of $968. Wedgefield was unable to provide supporting documentation for the accrual; therefore, staff removed the accrual from the test year.

Lastly, Wedgefield's miscellaneous revenues included late payment fees of $29,056. The Utility's late payment fee was implemented during the test year ended December 31, 2011. Staff questioned the Utility in regard to whether it experienced the same level of late fee payments for calendar year 2012. The Utility indicated the late payment fees collected in 2012 averaged $21,271, which was a decreased of $7,784 or 27 percent. The test year level of late payment fees are reflective of the customers responsiveness to the initial implementation of the late payment fee. The level of late payment fees may decrease as the customers adjust to Pluris' enforcement for late payments, whereas the previous owners did not have a late payment fee. Staff recommends that miscellaneous revenues be decreased by $7,784 to reflect the amount of late payment fees the Utility is expected to collect prospectively.

The Utility recorded $731,559 for wastewater service revenues during the test year. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff calculated test year revenue of $732,003. The Utility incorrectly billed a gallonage charge of $4.59 instead of $4.56 for its general service wastewater customers. The Utility has corrected its billing to reflect the Commission-approved rate. Staff recommended increasing wastewater service revenues by $444 to reflect the appropriate test year revenue.

Table 10-1

TEST YEAR REVENUES WATER - ADJUSTMENTS	
Billing Determinant Correction	$2,759
Meter Installation	($330)
Online Payment Fees	($7,906)
Prior Year Accrual	$12,595
Undocumented Accrual	($968)
Late Payment Fees	($7,784)
NET INCREASE (DECREASE)	($1,634)

Based on the above, staff recommends test year revenues of $983,812 for the water system and $732,003 for the wastewater system. Test year revenues for the water system should be decreased by $1,634 (as reflected in Table 10-1 above) and CIAC for water should be increased by $8,410 ($8,080 + $330). Wastewater test year revenues should be increased by $444. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Issue 11: Should any adjustments be made to Contractual Services – Management Fees?

Recommendation: Yes. The appropriate amount of allocated expenses from Pluris Holdings, LLC to Pluris Wedgefield, Inc. in Contractual Services – Management Fees should be reduced by a total of $69,419 or by $34,710 each for water and wastewater. (VanEsselstine, Fletcher)

Staff Analysis: In MFR Schedule B-9, the Utility included $193,938 (split equally between water and wastewater) for Contractual Services – Management Fees for utility management. With information supplied by the Utility, through data requests, the staff audit, technical staff's review, and input from the Office of Public Counsel (OPC), staff believes there are several adjustments necessary to Contractual Services – Management Fees.

Before covering the Utility's post-filing adjustments and staff's recommended adjustments, staff believes it would be appropriate to first discuss the Utility's allocation methodology, the required analysis of affiliate charges, and staff's audit.

Allocation Methodology

Pluris Holdings, LLC (Pluris) is the parent company to five utilities.[10] The parent costs are allocated for the most part based on number of customers. This allocation method involves dividing the total number of Equivalent Dwelling Units (EDUs) of each utility, by the total number of EDUs of all the utilities to determine the percentages, and then applying the prorated allocation of expenses to the individual utilities.[11]

Payroll-related costs are allocated using the same methodology with the exception of Pluris Southgate, Inc. (Southgate) which reports its direct labor costs to Sarasota County. Southgate is a regulated franchised utility subject to the jurisdiction of Sarasota County. Sarasota County ordinance (Resolution No. 2003-12) requires timesheets to be completed by corporate management and actual hours for services billed to Southgate in lieu of allocation by EDUs. The following table is MFR Schedule G-1 which outlines the Utility's allocated indirect costs and labor costs.[12]

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[10] Pluris, LLC in Sneads Ferry, North Carolina with 2,635 ERCs; Pluris Eastlake, Inc. in Hillsborough County, Florida with 1,890 ERCs; Pluris PCU, Inc. in Hillsborough County, Florida with 3,119 ERCs; Pluris Wedgefield, Inc. in Orange County, Florida with 3,309 ERCs; and Pluris Southgate, Inc. in Sarasota County, Florida with 5,585 ERCs.
[11] EDUs are equivalent to ERCs as they are determined in the same manner through the use of the American Water Works Association's (AWWA) meter equivalent factors.
[12] See Document No. 04836-12.

Schedule G-1
Pluris Wedgefield, Inc.
Statement of Corporate Allocation by Utility
For the Test Year Ended 12/31/11

Pluris Holdings,LLC Indirect Expense and Salary Allocations by Utility

Utility	Indirect Expense Allocation (1) Total EDU's	Indirect Allocation Percentage	Indirect Allocated Amount	Salary EDU's	Salary and Benefits Allocation (2) Salary Allocation Percentage	Salary Allocated Amount	Direct Salary Allocation	Total Salary Allocation	Total Allocated Costs
Pluris Eastlake, Inc.	1,890	11.43%	$ 74,656	1,890	17.25%	$ 36,111		$ 36,111	$ 110,767
Pluris PCU, Inc.	3,119	18.86%	123,186	3,119	28.48%	59,619		59,619	182,805
Pluris,LLC	2,635	15.93%	104,048	2,635	24.06%	50,366		50,366	154,415
Pluris Southgate, Inc.	5,585	33.77%	220,572	-		-	$ 167,007	167,007	387,579
Pluris Wedgefield, Inc.	3,309	20.01%	130,697	3,309	30.21%	63,241	-	63,241	193,938
Totals	16,538	100.00%	$ 653,160	10,953	100.00%	$ 209,337	$ 167,007	$ 376,344	$1,029,504

Notes: (1) The allocation metholodgy for indirect costs is based on the total EDU's of each managed utility These EDU's include both water and wastewater customers and are detailed on Schedules G-3, G-4, G-5, G-6 and G-7.

(2) Salaries and benefits are allocated on the EDU's of each managed utility (as referenced above) except for the Southgate system. For the Southgate system, a direct allocation of corporate salaries and benefits is required by the County regulators.

Required Analyses of Affiliate Charges

It is the utility's burden to prove that its costs are reasonable. This burden is even greater when the transaction is between related parties for two reasons: (1) affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices, and (2) utilities have a natural business incentive to shift costs from non-regulated operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Accordingly, although a transaction between related parties is not per se unreasonable, related party transactions require closer scrutiny. The legislature has recognized the need to scrutinize affiliate transactions by specifically granting the Commission access to non-regulated affiliate records. Specifically, Section 367.156(1), F.S., states:

> The commission shall continue to have reasonable access to all utility records <u>and records of affiliated companies, including its parent company, regarding transactions or cost allocations among the utility and such affiliated companies, and such records necessary to ensure that a utility's ratepayers do not subsidize nonutility activities.</u> Upon request of the utility or any other person, any records received by the commission which are shown and found by the commission to be proprietary confidential business information shall be kept confidential and shall be exempt from s. 119.07(1).

(Emphasis added). In overturning a prior Commission decision, Florida's Supreme Court enunciated the standard for which the Commission should review affiliate transactions stating, "(w)e believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair." [13]

Staff Audit

Staff auditors performed an analytical review of Pluris' costs to determine whether selected costs could be traced back to supporting source documentation. An audit of the gross costs at the parent level was performed which included an examination of costs for proper timing, amount, and classification. The auditors also examined the costs to determine whether any costs were non-utility related, non-recurring, unreasonable or imprudent.

Post-Filing Utility Adjustments

The first set of adjustments pertain to the Utility's allocated operating expenses as outlined in MFR Schedule G-2, which reflects total parent operating expenses of $529,393 with Wedgefield's allocation of $105,930. In response to numerous staff data requests, including concerns raised by OPC, the Utility withdrew in part, or total, certain expenses it determined should not have been included in the allocated overhead.

Table 11-1

Utility Adjusted Expenses				
Expense Description	Jan - Dec 11 Pluris (Parent)	Jan - Dec 11 Wedgefield Allocation	Adjusted Pluris Expense	Adjusted Wedgefield Allocation
Travel	$98,238	$19,657	$77,152	$15,438
Meals and Entertainments	10,356	2,072	0	0
Dues and Subscriptions	17,187	3,439	1,863	373
Education and Seminars	3,959	792	450	90
Relocation Cost	43,047	8,614	26,442	5,291
Total Expense	$529,393	$105,930	$462,513	$92,548
Other Income	($2,386)	($477)	0	$0
Interest Expense	121,267	24,266	0	0
Income Taxes	116	23	0	0
Total Other Income/Expense	$118,997	$23,812	$0	$0

The above table includes the original MFR filing and Utility-made adjustments resulting in a reduction of $13,382 ($105,930 - $92,548) from the allocated parent expenses. Additionally, Wedgefield removed 'Other Income' from a vehicle sold in North Carolina in the allocated amount of $477, 'Interest Expense' in the allocated amount of $24,266, and 'Corporate Income Tax Expense' of $23. This represents a total reduction of O&M expense allocated to Wedgefield of $38,149 ($24,266 + $23 + $477 + $13,382).

[13] GTE v. Deason, 642 So. 2d 545, 548 (Fla. 1994).

Technical Staff Review

Staff issued several data requests to Wedgefield seeking additional and clarifying information for Pluris' proposed cost allocations. Although the Utility withdrew some of its requested allocated costs, staff believes further reductions on these items and additional items are necessary. During its review, staff identified several expenses that it recommends be adjusted to reflect the proper amount of costs to be allocated from Pluris to Wedgefield.

Automobile Expense

In its MFRs, the Utility recorded $47,305 at the parent-level with $9,466 ($47,305 x 20.01 percent) allocated to Wedgefield for various vehicle expenses. This amount includes the annual lease expense for two company vehicles in the amount of $28,436 at the parent-level and $5,690 ($28,436 x 20.01 percent) allocated to Wedgefield. In response to a staff data request, the Utility submitted that company vehicles supplied to the executive staff were part of their compensation package. Although staff believes it is important for utility companies to offer attractive compensation packages to hire and retain qualified management, staff believes the magnitude of this expense exceeds the benefit to the ratepayers.

Further, the Utility provided in response to a staff data request its company travel policy, which states that employees are limited to rent mid-sized vehicles. The Utility also provided annual lease estimates for vehicles typically rented while on travel by Wedgefield employees, including an annual lease amount of $5,920 for a Chevrolet Impala (same size as rental policy). Staff believes that it is reasonable to include the annual lease amount in line with the company's stated rental policy for vehicles. This equates to parent-level and allocated vehicle lease expense for executive staff of $11,840 and $2,369, respectively. Thus, staff recommends a reduction in annual expense of $16,596 ($28,436 - $11,840) at the parent-level and $3,321 ($5,690 - $2,369) allocated to Wedgefield.

Travel

In its MFRs, the Utility recorded $98,238 at the parent-level with $19,657 ($98,238 x 20.01 percent) allocated to Wedgefield for travel incurred in the test year. In response to a staff data request, the Utility removed $21,086 that it believed was recorded incorrectly resulting in a total travel expense at the parent-level of $77,152 ($98,238 - $21,086). The Utility provided a spreadsheet with all of the test year travel expenses as support documentation of the expense. Staff reviewed the revised travel expenses and identified additional charges that it believes should be removed from the test year amount.

First, staff identified costs it believes to be for travel for potential acquisitions, non-utility costs, and/or items that can be directly identified as a cost to be booked by a subsidiary other than Wedgefield. Staff believes that $20,725 is the appropriate amount of travel expenses at the parent-level to be allocated down, of which $4,147 ($20,725 x 20.01 percent) should be allocated to Wedgefield. The net result of this adjustment is a reduction of $11,291 to travel expenses.

The second part of the adjustment to travel expense relates to expenses that were non-recurring outside the test year. In accordance with Rule 25-30.433, F.A.C., non-recurring test year expenses should be amortized over five years. Several of the travel costs incurred in the test year were directly identified as relocation expenses. As such, staff believes $11,129 should be amortized over five years or $2,226 annually with $445 ($2,226 x 20.01 percent) allocated to Wedgefield. Based on the above, staff recommends a reduction in travel expenses of $11,736 ($11,291 + $445) allocated to Wedgefield.

Dues and Subscriptions

In its MFRs, the Utility recorded $17,187 in dues and subscriptions at the parent-level with $3,439 ($17,187 x 20.01 percent) allocated to Wedgefield. In response to a staff data request, the Utility removed $15,324 of this amount, resulting in a total dues and subscriptions expense at the parent-level of $1,863 ($17,187 - $15,324). Staff reviewed the revised dues and subscriptions expenses and identified an additional charge it believes should be removed from the test year. Staff believes that $325 for dues to the Georgia Rural Water association should be removed from management fees as a non-utility related expense. Staff believes that $1,538 is the appropriate amount of dues and subscriptions at the parent-level to be allocated down, of which $308 ($1,538 x 20.01 percent) should be allocated to Wedgefield.

Wages

In its MFRs, the Utility recorded $376,344 in labor costs at the parent-level. As discussed above, payroll-related costs are allocated using the same methodology as its expenses. However, the Utility's Southgate unit is required to report its direct labor costs to Sarasota County. The removal of the Southgate system increases the relative allocation percentage for salaries and benefits allocated to Wedgefield to 30.21 percent. However, this higher factor is applied to a lower base cost of $209,337 reflecting the removal of the Southgate-specific payroll costs. The allocated labor costs to Wedgefield are $63,241.

In response to a staff data request, the Utility provided job descriptions for the three employees included in the wages expense: Managing Member and Principal Engineer, Manager, and Administrative Assistant. The management job duties are described below:

> *Maurice W. Gallarda, PE*, serves as the Managing Member and Principal Engineer. He is a licensed Civil Engineer in multiple states. His duties include oversight responsibilities of corporate matters including banking and finance, engineering operations, regulatory compliance and developer relations.
>
> *Kenneth Pratt* serves as a Manager and his duties include human resources, accounting and finance, IT and customer relations.
>
> *Tina Odisho* provides reception, clerical and accounts' payables' duties at the Pluris corporate office in Dallas, Texas.[14]

[14] See Document No. 08348-12.

Staff determined the appropriateness of the management's compensation by comparing the salaries with the appropriate average salary levels found in the 2008 Water Utility Compensation Survey (WUCS) published by the American Water Works Association (AWWA). Staff reviewed the job descriptions provided by the Utility and matched them to job categories outlined by AWWA. The Commission has previously utilized the AWWA's WUCS to determine appropriate compensation levels.[15]

The total wages for these three positions amounted to $245,912 ($112,155 + $80,995 + $52,762). Staff used a gross-up factor that included the Commission approved index amounts from 2009, 2010, and 2011, or an increase of 4.43 percent to the 2008 salary-level. As a result, staff recommends a reduction in the Utility's requested wages in the amount of $80,900 ($376,344 - $245,912). Corresponding adjustments should also be made to payroll expense, payroll tax expense, and employee benefits in the amount of $820 ($3,314 - $2,494), $5,017 ($20,267 - $15,250), and $6,424 ($25,950- $19,526), respectively. The table below shows staff's calculation of the appropriate compensation levels adjusted to the test year:

Table 11-2

		AWWA Compensation Survey				
Work Performed	Parent Compensation per Utility	Top Executive	Top Admin Executive	Office/Adm Mgmr	Staff Adjustment to Parent	Staff Recommended Wages
Salary	$326,812	$112,155	$80,995	$52,762	($80,900)	$245,912
Payroll Expense	3,314	1,137	821	535	(820)	$2,494
Payroll Tax Expense	20,267	6,955	5,023	3,272	(5,017)	$15,250
Employee Benefits	25,950	8,906	6,431	4,189	(6,424)	$19,526
Total	$376,343				($93,161)	$283,183

Thus, staff recommends the appropriate labor costs at the parent-level is $283,183 ($376,343 - $93,161) of which $157,517 is the available amount for allocation to Wedgefield. As discussed above, the Utility's Southgate unit is required to report its direct labor costs to Sarasota County. Therefore, staff calculated the relative decrease in its recommended salaries at the parent-level associated with the Southgate, which equates to approximately 44 percent or $125,666 ($283,183 x 44 percent). Based on the above, utilizing the Utility's allocation factor of 30.21 percent, staff believes $47,586 ($157,517 x 30.21 percent) should be allocated to Wedgefield.

[15] See Order Nos. PSC-10-0380-PAA-WU, issued June 15, 2010, in Docket No. 090477-WU, In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.; PSC-10-0126-PAA-WU, issued March 3, 2010, in Docket No. 090230-WU, In re: Application for staff-assisted rate case in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility; PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for staff-assisted rate case in Lake County by CWS Communities LP; PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 070601-WU, In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply; and PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.

However, staff recommends an adjustment related to the allocation percentage for salaries and benefits. Upon reviewing the Utility's filing, staff noted that Pluris did not allocate any of its parent-level costs or salaries and benefits to Pluris Alabama, LLC (PAL). In response to a staff data request, the Utility provided an organization chart consisting of one parent company and six subsidiaries. The Utility also noted that it was responsible for the costs associated with three miles of Polyvinyl Chloride (PVC) main water lines booked directly to PAL. A review of the Utility's travel logs revealed that Mr. Gallarada spent time traveling to Alabama during the test year. Staff believes that since there is management time associated with PAL, the corresponding ERCs associated with PAL should be included in the allocation of the salary and benefit expense. Staff determined the appropriate ERCs to allocate for PAL utilizing the AWWA meter equivalent factors for an eight inch meter. As a result, staff believes the appropriate amount of ERCs associated with the PAL system is 115 (8 x 14.38).

Table 11-2

Adjusted Salary Allocation		
System	EDUs	Allocation %
Pluris Eastlake, Inc.	1,890	17.08%
Pluris PCU, Inc.	3,119	28.18%
Pluris, LLC	2,635	23.81%
Pluris Southgate, Inc.	0	0.00%
Pluris Wedgefield, Inc.	3,309	29.90%
Pluris Alabama, LLC	115	1.04%
	11,068	100.00%

Staff's recommended adjustments to the allocated amount of salaries at the parent-level require a corresponding adjustment to reduce the base payroll cost, reflecting the removal of the Southgate-specific payroll costs, to $157,517. Based on the above, staff recommends lowering the allocation factor for Wedgefield to 29.90 percent resulting in an allocated salary amount of $47,093 ($157,517 x 29.90 percent) to Wedgefield. This equates to a reduction in allocated salary of $16,148 ($63,241 - $47,093).

Comparison of Pluris' Allocated Costs to Other Florida Water and Wastewater Utilities

For comparative purposes only, staff notes in the recent Aqua Utilities of Florida, Inc. 2010 rate case, staff compiled the total average O&M expense per customer of all utilities under the Commission's jurisdiction.[16] Based on all 2009 regulated utilities' annual reports on file with the Commission, the total average O&M expense per customer of all utilities is approximately $399. On a total O&M basis, including management fees, the current cost per customer for

[16] See Order No. PSC-12-0102-FOF-WS, issued March 5, 2012, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

Wedgefield is $370, which staff believes is comparable to the average amount for all utilities under the Commission's jurisdiction.

Conclusion

Based on staff's recommendations above, the appropriate amount of allocated expenses from Pluris Holdings, LLC to Wedgefield in Contractual Services – Management Fees is $124,519, which represents a decrease of $69,419 ($193,938 - $124,519). This equates to a reduction of $34,710 for both water and wastewater.

Issue 12: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $94,447. This expense should be recovered over four years for an annual expense of $12,061 for water and $11,551 for wastewater. Therefore, total rate case expense should be reduced by $13,153. This represents a reduction of $1,680 for water and $1,609 for wastewater on an annual basis. (VanEsselstine, Fletcher)

Staff Analysis: The Utility included in its MFRs an estimate of $107,600 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 11, 2013, the Utility submitted a revised estimated Rate Case Expense (RCE) through completion of the PAA process of $133,488.

Table 12-1

Description	MFR B-10 Estimated	Actual as of 2/11/13	Additional Estimated	Revised Total
Thomas Graig & Company, LLP	$9,600	$23,122	$0	$23,122
Sundstorm, Friedman & Fumero, LLP	45,000	22,054	14,181	36,235
Stockdale Investment Group	25,000	25,000	0	25,000
Primoris Inc	15,000	13,650	1,500	15,150
Primoris Inc	5,000	4,750	0	4,750
Filing Fee	4,000	0	4,000	4,000
Customer Notices	4,000	1,459	0	1,459
Maurice Gallarda	0	11,872	2,500	14,372
Dan Winters	0	7,400	2,000	9,400
Total Rate Case Expense	$107,600	$109,306	$24,181	$133,487

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

Thomas Craig & Company, LLP (TC&C)

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing and the corresponding annual reports. In its MFRs, Wedgefield estimated $9,600 for accounting and preparation of the MFRs. The revised MFR Schedule B-10 reflected actual accounting consultant charges of $23,122 through February 11, 2013. However, the invoices provided as support of the requested amount totaled $21,309. Additionally, based on staff's review of invoices from Mr. Wessman of TC&C, $7,818 (75.25 hours x $103.90/hr) was billed for correcting the MFR deficiencies, the 2010 and 2011 annual reports, and revising the Utility's filing. The Commission has previously disallowed rate case expense associated with correcting

MFR deficiencies because of duplicate filing costs.[17] Accordingly, staff recommends the TC&C fees should be decreased by $9,631 ($1,812 + $7,818) as duplicative rate case expense.

Sundstrom, Friedman & Fumero, LLP (SF&F)

The second adjustment relates to the Utility's legal fees. The Utility included in its MFRs $45,000 in legal fees to complete the rate case. The Utility provided invoices through February 11, 2013, showing legal expenses associated with the rate case totaling $36,235. According to the invoices, the law firm of SF&F, billed the Utility 2.4 hours related to filing an extension for its MFRs and for the correction of MFR deficiencies. Based on the law firm's hourly rate of $340 per hour, the total amount billed to Wedgefield was $816 ($340 x 2.4). As discussed above, the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. Based on the above, staff recommends the SF&F fees be reduced by $816 as duplicative rate case expense.

Primoris, Inc. (Primoris)

The third adjustment relates to services provided by Mr. Gallarda at Primoris for a billing analysis. In the support documentation that the Utility provided, Mr. Gallarda billed the Utility 91 hours for collecting billing data for the years of 1995 to 2012. Staff believes that only one year, the test year, of billing data is necessary in the instant docket and should be included in RCE. Staff calculated that one year of billing data would have taken Mr. Gallarda 5.35 hours to compile (91 hrs/17 yrs). Based on Mr. Gallarda's hourly rate of $75 per hour, the excess amount billed to Wedgefield was $6,424 ($75 x 85.65 hrs). Further, in its revised rate case expense schedule, the Utility included $1,500 that was unsupported and should also be removed. Based on the above, staff recommends the Primoris fees be reduced by $7,924 ($6,424 + $1,500) as excessive rate case expense.

Finally, the Utility included $5,000 in its MFR filing for accounting work associated with Primoris. However, the invoice provided as support by the Utility showed an actual amount of $4,750. Staff believes it is appropriate to include the actual amount billed in the amount of total revised rate case expense.

Customer Notices

The fourth adjustment relates to customer notices and postage. The Utility included in its MFRs expenses $4,000 for customer notices and postage. In its revised rate case expense schedule, Wedgefield included an invoice for $1,459 for copying, printing and mailing out of the interim notice. Wedgefield is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, staff estimated the additional costs using the breakdown of costs provided by the Utility. Staff estimates an additional $1,137

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

($569 x 2) for the postage, $1,159 ($580 x 2) for the coping, and $927 ($371 + $556) for the printing.[18] Staff also recognized the discount given by the vendor in the amount of $120 ($60 x 2). Based on these components, the total cost for the additional customer notices and postage is $3,103 ($1,137 + $1,159 + $927 - $120). Accordingly, staff recommends rate case expense be increased by $4,561 ($1,459 + $3,103).

Items not included in original MFR schedule B-10

On February 11, 2013, the Utility submitted a revised estimated rate case expense through completion of the PAA process. The revised support documentation for actual and expected costs associated with the instant docket included two items that were not part of the original MFR schedule B-10. Those amounts totaled $23,772 ($14,372 + $9,400) for the Managing Partner and Controller of Pluris. In response to a staff data request, the Utility provided job descriptions and duties for these employees of the parent company. Staff believes including the executive management team in its rate case expense is double recovery of the allocated compensation for the positions above. This recommended adjustment is consistent with the Commission's recent decisions for four Utilities, Inc. subsidiaries.[19] Therefore, staff recommends that the costs associated with Pluris executives of $23,772 be disallowed in rate case expense.

Items without adjustments

There are three items included in the Utility's rate case expense staff deemed reasonable without adjustments. First, the Utility included in its MFRs $25,000 for the preparation of its MFR filing. Staff reviewed the invoice provided as support by the Utility to its requested amount and compared the amount to other rate cases that have come before the Commission. Staff determined no adjustment in this account was necessary. Second, the Utility included in its MFRs $4,000 for the filing fee associated with the instant docket. Staff verified that this amount was not already imbedded in another expense account and believes it is appropriate to include this amount in the total revised rate case expense.

Conclusion

It is the Utility's burden to justify its requested costs.[20] Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. In summary, staff recommends that Wedgefield's

[18] The combined initial and customer meeting notice sent by the Utility was six pages, and staff anticipates that the final notice will be approximately four pages.
[19] See Order Nos. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, at p. 16-18; PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., at pp. 23-25; PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke, at p. 16; and PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation, at p. 20.
[20] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

revised rate case expense be decreased by $13,153 for unsupported or unreasonable rate case expense. The appropriate total rate case expense is $94,447. A breakdown of rate case expense is as follows:

Table 12-2

Description	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Total
Thomas Graig & Company, LLP	$9,600	$23,122	($9,631)	$13,491
Sundstorm, Friedman & Fumero, LLP	45,000	36,235	(816)	35,419
Stockdale Investment Group	25,000	25,000	0	25,000
Primoris Inc	15,000	15,150	(7,924)	7,226
Primoris Inc	5,000	4,750	0	4,750
Filing Fee	4,000	4,000	0	4,000
Customer Notices	4,000	1,459	3,103	4,561
Maurice Gallarda	0	14,372	(14,372)	0
Dan Winters	0	9,400	(9,400)	0
Total Rate Case Expense	$107,600	$133,488	($39,040)	$94,447
Annual Amortization	$26,900	$33,372	($9,760)	$23,612

In its MFRs, Wedgefield requested total rate case expense of $107,600, which amortized over four years is $26,900 annually. On February 11, 2013, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $133,488. Staff's recommended level of rate case expense represents a reduction of $13,153 ($107,600 - $94,447) from the amount originally filed in the MFRs and a reduction of $39,041 ($133,488 - $94,447) from the Utility's revised estimate. The annual amortization of rate case expense should be reduced by $3,289 ($26,900 - $23,612) per year. This represents a reduction of $1,680 for water and $1,609 for wastewater.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Wedgefield and the recommended adjustments discussed above, staff recommends the appropriate amount of rate case expense is $94,447. This expense should be recovered over four years for an annual expense of $23,612 or $12,061 ($23,616 x 51 percent) for water and $11,551 ($23,616 x 49 percent) for wastewater.

Issue 13: Should the Commission approve any pro forma expense items for the Utility?

Recommendation: Yes. O&M expense should be increased by $9,439 for both water and wastewater. Additionally, property taxes should be increased by $29,091 for water and $31,245 for wastewater. (VanEsselstine, Fletcher)

Staff Analysis: The Utility requested several pro forma expenses be included in the instant docket subsequent to its MFR filing. The Utility requested additional pro forma expenses relating to the addition of call center staff, the addition of a Controller, and an increase in the Utility's property taxes.[21] Staff reviewed the support documentation for the requested pro forma expenses and believes there are necessary adjustments.

Pro Forma Salaries

During the course of its review, staff determined that the call center staff was left out of the expenses allocated to Wedgefield from its parent. In response to a staff data request, the Utility stipulated that the MFRs were filed prior to the customer call center services being performed by Pluris. Utility Partners provided the services through the end of 2011 based on a verbal agreement outside its contract.

In reviewing the Utility's request, staff analyzed whether any cost savings were realized by bringing the call center services in-house. Staff reviewed the total requested compensation package for seven call center employees, which equated to an allocated amount of $75,432 ($249,694 x 30.21 percent) to Wedgefield. Based on the methodology described in Issue 11, staff believes the requested in-house call center employees would result in an allocated increase of $12,457 ($41,661 x 29.90 percent) to Wedgefield above the $40,665 amount charged by UP and included in test year expenses. Table 13-1 outlines the requested post-filing pro forma customer care center compensation analysis.

Table 13-1

Customer Care Center Compensation	
Call Center Service Charged by UP	$40,665
Additional Requested Amount for 7 Employees	$34,767
Total Adjusted Customer Care Center Compensation	$75,432
Percentage Available without Southgate	55%
Total Amount Available to be Allocated	$41,661
Allocation Factor	29.9%
Incremental Amount to Pluris Wedgefield	$12,457

[21] See Document Nos. 07583-12; 08349-12; and 00809-13.

In response to a staff data request, Wedgefield stated that its requested pro forma expenses for call center employees was due to comments about hold times by Wedgefield ratepayers at the customer meeting held in this case and the need based on management's review. Staff notes there were a few comments expressed at the customer meeting regarding hold times. To follow-up Pluris' management review as an additional basis for the in-house call center employees, staff requested any compensation studies for all Pluris positions. However, the Utility stated there were no such studies done. Although providing superior customer service is extremely important, staff believes a pro forma increase is realized by the shift to providing the services in-house. Based on the above, staff recommends that the requested additional pro forma labor costs of $34,767 ($75,432 - $40,665) be disallowed.

Further, staff evaluated the appropriateness of the requested Controller's compensation by comparing the salary with the appropriate average salary levels found in the 2008 WUCS published by the AWWA. Staff used a gross-up factor that included the Commission approved index amounts from 2009, 2010, and 2011, or an increase of 4.34 percent to the 2008 salary-level. As mentioned in a previous issue, the Commission has previously utilized the AWWA's WUCS to determine appropriate compensation levels.[22] As a result, staff believes the appropriate increase to O&M expense for the addition of the Controller is $18,878, to be split equally between water and wastewater. Table 13-2 outlines the requested post-filing pro forma controller compensation.

Table 13-2

Pro Forma Controller Compensation	
	Top Finance Executive
AWWA Compensation Survey	$92,903
Gross-up Factor	1.0434
2011 Compensation	$99,272
Benefits (Payroll and Payroll tax expenses, Employee Benefits)	15.16%
Total Adjusted Salary	$114,318
Percentage Available without Southgate	55%
Total Amount Available to be Allocated	$63,138
Allocation Factor	29.90%
Total Amount to Pluris Wedgefield	$18,878

[22] See Order Nos. PSC-10-0380-PAA-WU, issued June 15, 2010, in Docket No. 090477-WU, In re: Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.; PSC-10-0126-PAA-WU, issued March 3, 2010, in Docket No. 090230-WU, In re: Application for staff-assisted rate case in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility; PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for staff-assisted rate case in Lake County by CWS Communities LP; PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 070601-WU, In re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply; and PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.

Pro Forma Property Taxes

In its MFRs, Wedgefield included property taxes in the amount of $108,593 for the approved test year. However, during the course of the instant docket, the Utility received its 2012 property tax bill in the amount of $175,968. Subsequently, the Utility requested a pro forma adjustment to property taxes in the amount of $67,375 ($175,968 - $108,593). Staff has examined the requested pro forma adjustment and believes the Utility will continue to incur this level of property taxes in the foreseeable future. However, staff calculated the property taxes as invoiced to Wedgefield and found the actual amount to be $168,929. Additionally, as noted in staff Audit Finding No. 6, the Utility failed to take advantage of the early filing discount of 4 percent. As a result, staff recommends that taxes other than income be increased by $29,091 ($168,929 x 48 percent) for water and $31,245 ($168,929 x 52 percent) for wastewater to reflect the appropriate amount of property taxes for the Utility's facilities based on their respective percentages of plant.

Conclusion

Based on the discussion above, O&M expense should be increased by $9,439 for both water and wastewater. Additionally, property taxes should be increased by $29,091 for water and $31,245 for wastewater.

Issue 14: What is the appropriate amount of income tax expense?

Recommendation: The appropriate amount of income tax expense is $93,646 for water and $20,166 for wastewater as reflected on Schedules 3-A and 3-B, respectively. (VanEsselstine, Fletcher)

Staff Analysis: In its MFRs, the Utility, requested total income tax expense of $118,022 for water and $28,646 for wastewater. In its response to a staff data request, the Utility noted that it has a net operating loss (NOL) carry-forward balance of $196,839 that it projects will be utilized by 2014. The Utility further stated that it "holds the position that the equity owners have financed the past losses of the Utility, and therefore should not be further penalized by a reduction to the revenue requirement requested for the period required to remove the NOL carry-forward." However, consistent with Commission practice, staff believes that the Utility's tax liability should be offset with NOL carry-forwards because the ratepayers have not benefited from the tax losses Wedgefield has accumulated.[23] Specifically, in the Sebring Gas System, Inc.'s 2004 rate proceeding, the Commission found that:

> [a] corporation may carry-forward a NOL [net operating loss] up to 20 years. Although the Company may reflect positive net income in 2005 and the years to follow due to this rate increase, we find that it will take several years before the Company will be able to fully utilize the NOL carry-forwards. Further, the customers have not benefited from the tax losses the Company has accumulated over the years, as evidenced by zero income tax expense reflected in prior years' Annual Reports and Earnings Surveillance Reports. Therefore, we find that the amount of income tax expense reflected in the MFRs shall be zero and the federal and state income tax factors in the revenue expansion factor shall be omitted.

The difference between the Sebring case and the instant docket is that Wedgefield will exhaust its NOL carry-forwards by 2014 rather than over the course of several years as in the Sebring case. Due to the inevitable changes in customer consumption via usage behavior or resulting from the amount of rainfall, it would be a difficult to anticipate exactly when the Utility may exhaust all its available NOL carry-forwards. As such, staff does not believe a phased-rate approach is appropriate to account for the treatment of the Utility's available NOL carry-forwards. Thus, staff believes the available NOL carry-forwards should be amortized over a certain period which is discussed more fully below.

Based on an estimated effective date of May 31, 2013 for final rates, assuming no protest is filed in the instant case, staff calculated available NOL carry-forwards of $105,282 for which $86,628 is attributed to water and $18,654 is attributable to wastewater. When evaluating the appropriate amortization period, staff looked at how often Class A and B utilities had filed for

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[23]See Order Nos. PSC-06-0170-PAA-WS, issued March 1, 2006, in Docket No. 050281-WS, In re: Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company; and PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc.

rate relief in the past 10 years. Over this 10-year period, there were 38 rate relief petitions filed by Class A and B utilities for which the average time between each rate petition was approximately six and a half years. During this period of time, 22 of these utilities filed only one rate relief petition and 16 other utilities on average filed for rate relief every 3 years. Only time will reveal how long until Wedgefield might seek rate relief in the future. Given the above, staff believes a four-year amortization period is appropriate as it attempts to normalize the test year provision of income taxes. This period coincides with the four-year amortization period of rate case expense.

Based on staff's recommended adjustments in other issues and prior to any offset from available NOL carry-forwards, staff has calculated income tax provisions of $115,303 for water and $24,829 for wastewater. The four-year amortization amount of available NOL carry-forwards is $21,657 ($86,628 divided by 4) for water and $4,664 ($18,654 divided by 4) for wastewater. Therefore, staff recommends that the appropriate amount of income tax expense is $93,646 for water and $20,166 for wastewater as reflected on Schedules 3-A and 3-B, respectively.

Issue 15: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved.

	Test Year Revenue	$ Increase	Revenue Requirement	% Increase
Water	$983,812	$389,470	$1,373,282	39.59%
Wastewater	$732,003	$148,110	$880,113	20.23%

(VanEsselstine, Fletcher)

Staff Analysis: In its filing, Wedgefield requested revenue requirements to generate annual revenue of $1,379,982 and $913,888 for water and wastewater, respectively. Staff believes the appropriate revenue requirement should be $1,373,282 for water and $880,113 for wastewater. This represents an increase in revenues of $389,470 (or 39.59 percent) for water and $148,110 (or 20.23 percent) for wastewater. This increase will allow the Utility the opportunity to recover its operating expenses and earn an 8.36 percent return on its combined investment in water and wastewater rate base. As noted in the background, Wedgefield submitted pro forma expense and capital items subsequent to filing its MFRs. However, the Utility did not request an increase in revenue requirement. As a result, staff's recommended revenue requirement for the Utility's water system is nearly equal to the amount requested by the Utility despite the numerous adjustments recommended in other issues.

RATES

Issue 16: What is the appropriate rate structure for the Wedgefield water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class should be a continuation of the base facility charge (BFC) and three-tier inclining block gallonage charge rate structure. The appropriate usage blocks should be set for consumption at: 1) 0-5,000 gallons; 2) 5,001-10,000 gallons; and 3) usage in excess of 10,000 gallons, with appropriate usage block rate factors of .81, 1.00, and 1.50, respectively. The recommended rate structure for the water system's non-residential class should be a continuation of the BFC and uniform gallonage charge rate structure. The water system's BFC cost recovery percentage should be set at 35 percent. Staff recommends the residential wastewater gallonage cap be set at 8,000 gallons a month. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential gallonage charge. (Thompson, Hudson)

Staff Analysis:

Water Rates

Wedgefield is located in Orange County, within the SJRWMD in the Central Florida Caution Area (CFCA). Over the past few years, the District has requested, whenever possible, that an inclining block rate structure be implemented. Wedgefield's current rate structure consists of an inclining block rate structure which was approved in the prior rate case.[24] The current rate structure for the water system consists of a BFC and a three-tier inclining block gallonage charge. The BFC is $23.39 and the gallonage charges per 1,000 gallons are $4.04 for gallons up to 5,000 gallons; $5.05 from 5,001 to 10,000 gallons; and $8.09 for gallons greater than 10,000.

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

Staff's analysis indicates that the overall average residential consumption for this customer base is 5,427 gallons per month and the customer base is non-seasonal. Also, staff's analysis of the billing data indicates that there is little discretionary usage for this customer base. The service area consists of a population of some retirees and families with children. For this reason, staff recommends that the non-discretionary threshold be set at 5,000 gallons per month (3 people x 50 gallons per day per person x 30 days) consistent with the prior rate case. As discussed in Issue 17, staff did not apply a repression adjustment to non-discretionary usage.

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[24] See Order No. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.

Therefore, staff recommends that the existing three-tier rate structure be continued with usage block rate factors of .81, 1.00, and 1.50, respectively.

Staff's recommended rate design for the water system is shown on Table 16-1 below. Staff also presents two alternate rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all consumption levels.

TABLE 16-1

PLURIS WEDGEFIELD, INC.
STAFF'S RECOMMENDED AND ALTERNATIVE
WATER RATE STRUCTURES AND RATES

Test Year Rate Structure[1] and Rates			Recommended Rate Structure and Rates	
3-Tier Inclining Block Rate Structure 1.00, 1.25, and 2.00 BFC = 40%			3-Tier Inclining Block Rate Structure Rate Factors .81, 1.00 and 1.50 BFC = 35%	
BFC	$23.39		BFC	$24.53
0-5 kgals	$4.04		0-5 kgals	$7.73
5-10 kgals	$5.05		5-10 kgals	$9.57
10+ kgals	$8.09		10+ kgals	$14.36
Typical Monthly Bills			Typical Monthly Bills	
Consumption (kgals)			Consumption (kgals)	
0	$23.39		0	$24.53
1	$27.43		1	$32.36
3	$35.51		3	$47.72
5	$43.59		5	$63.18
10	$68.84		10	$111.03
20	$149.74		20	$254.63
Alternative 1 Rate Structure and Rates			Alternative 2 Rate Structure and Rates	
3-Tier Inclining Block Rate Structure Rate Factors .79, 1.00 and 1.50 BFC = 30%			3- Tier Inclining Block Rate Structure Rate Factors .83,1.00 and 1.50 BFC =40%	
BFC	$21.01		BFC	$28.05
0-5 kgals	$8.32		0-5 kgals	$7.13
5-10 kgals	$10.54		5-10 kgals	$8.64
10+ kgals	$15.82		10+ kgals	$12.96
Typical Monthly Bills			Typical Monthly Bills	
Consumption (kgals)			Consumption (kgals)	
0	$21.01		0	$28.05
1	$29.33		1	$35.18
3	$45.97		3	$49.44
5	$62.61		5	$63.70
10	$115.31		10	$106.90
20	$273.51		20	$236.50

[1] The Test Year Rate Structure reflects the Commission approved rate structure pursuant to Order No. PSC-08-0827-PAA-WS. The rates were designed with a BFC allocation of 40%. However, due to varying billing determinants since the last rate case, the rates now generate a BFC allocation of approximately 47% for the test year.

Staff recommends that the BFC allocation be set at 35 percent. Staff's recommended BFC allocation allows staff to design a rate structure that satisfies the goal of minimizing the rate impact on retirees and families with children who are already conserving. Staff's recommended BFC allocation also falls within the SJRWMD's guideline of setting the BFC allocation no greater than 40 percent. Furthermore, staff's recommended BFC allocation and rate factors target the small amount of discretionary usage above 10,000 gallons.

Based on the foregoing, staff recommends that the appropriate rate structure for Wedgefield's residential class is a three-tier inclining block rate structure. The three-tier rate structure for monthly consumption consists of usage blocks of: a) 0-5,000 gallons; b) 5,001-10,000 gallons; and c) all usage in excess of 10,000 gallons and usage block rate factors of .81, 1.00, and 1.5, respectively. The appropriate rate structure for the non-residential class is a continuation of the BFC and gallonage charge rate structure. The BFC recovery percentages should be set at 35 percent.

Wastewater

Wedgefield's current rate structure for the wastewater system's residential and non-residential classes is the traditional BFC and gallonage charge rate structure. The BFC is $21.07 and the residential gallonage charge is $3.82 per 1,000 gallons.

The Utility's proposed BFC allocation is 60 percent. This BFC cost recovery falls within the Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Therefore, staff recommends that the Utility's proposed BFC allocation be implemented.

The Utility's current residential wastewater cap is set at 10,000 gallons per month. It is Commission practice to set the residential wastewater gallonage cap at a consumption level equal to 80 percent of residential water sold. Staff's review of the billing data indicates that at 8,000 gallon consumption level, 83 percent of the gallons sold are captured. For this reason, the Utility's wastewater gallonage cap of 10,000 gallons should be reduced to 8,000 gallons. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 16-2 on the following page. Staff also presents two alternative rate structures to illustrate other recovery methodologies.

TABLE 16-2				
PLURIS WEDGEFIELD, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES				
Test Year Rate Structure and Rates			Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC =52.58%			Monthly BFC/ uniform kgals charge BFC = 60%	
BFC	$21.07		BFC	$28.58
0-10,000 gallons	$3.82		0-8,000 gallons	$4.17
Typical Monthly Bills			Typical Monthly Bills	
Consumption (kgals)			Consumption (kgals)	
0	$21.07		0	$28.58
1	$24.89		1	$32.75
3	$32.53		3	$41.09
6	$43.99		6	$53.60
8	$51.63		8	$61.94
10	$59.27		10	$61.94
Alternative 1 Rate Structure and Rates			Alternative 2 Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC = 50%			Monthly BFC/ uniform kgals charge BFC =40%	
BFC	$23.82		BFC	$19.05
0-8,000 gallons	$5.21		0-8,000 gallons	$6.25
Typical Monthly Bills			Typical Monthly Bills	
Consumption (kgals)			Consumption (kgals)	
0	$23.82		0	$19.05
1	$29.03		1	$25.30
3	$39.45		3	$37.80
6	$55.08		6	$56.55
8	$65.50		8	$69.05
10	$65.50		10	$69.05

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential classes is a continuation of the monthly BFC and gallonage charge rate structure. The current wastewater gallonage cap should be changed from 10,000 gallons to 8,000 gallons per month. The general service gallonage charge should be 1.2 times greater than the residential charge.

Issue 17: Is a repression adjustment for Wedgefield's water system appropriate in this case, and, if so, what is the appropriate adjustment to make, what are the corresponding expense adjustments to make, and what is the final revenue requirement for the water system?

Recommendation: Yes, a repression adjustment to the water system is appropriate for this Utility. For the water system, test year gallons sold should be reduced by 7,062,000 gallons, purchased power expense should be reduced by $4,287, chemicals expenses should be reduced by $3,926 and regulatory assessment fees (RAFs) should be reduced by $387. The final post-repression revenue requirement for the water system should be $1,329,044. (Thompson, Hudson)

Staff Analysis: Staff analyzed the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the average residential consumption is 5,427 gallons per month. This does not indicate a high level of consumption. However, the billing data also indicates that 12 percent of the customers consume over 10,000 gallons of water per month. Furthermore, in Issue 16, staff recommended that the threshold for the customer's essential usage be 5,000 gallons per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 5,000 gallons per month.

Staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case and the historically observed response rates of consumption to changes in price in prior cases.[25] This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 5,000 gallons per month) and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 5,000 gallons per month).

Therefore, based on this methodology, staff calculated that the test year residential consumption for this Utility should be reduced by 7,062,000 gallons. Purchased power expense should be reduced by $4,287, chemical expense should be reduced by $3,926, and RAFs should be reduced by $387. The final post-repression revenue requirement should be $1,329,044.

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

Issue 18: What are the appropriate rates for Wedgefield?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenues of $1,329,044 for water and $880,113 for wastewater, excluding miscellaneous revenues and expenses associated with the repression adjustments. The Utility 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. (Thompson, Hudson)

Staff Analysis: The recommended rates should be designed to produce the post-repression revenue requirement for the water system including miscellaneous revenues. The pre-repression water revenue requirement of $1,373,282 should be adjusted to remove miscellaneous revenues of $35,639 and $8,599 of expenses associated with repression adjustments. The resulting water rates should be designed to produce post-repression service revenues of $1,329,044. The wastewater rates should be designed to produce service revenues of $880,113.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B. The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. 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.

OTHER ISSUES

Issue 19: 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. This results in a refund of 6.49 percent for water and 6.68 percent for wastewater. 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 funds should be released upon staff's verification that the required refunds have been made. (VanEsselstine, Fletcher)

Staff Analysis: By Order No. PSC-12-0554-PCO-WS (Interim Order), the Commission allowed the collection of interim water and wastewater rates, and required the Utility to hold 26.84 percent of the current water revenues subject to refund, and 19.34 percent of the current wastewater revenues subject to refund pursuant to Section 367.082, F.S.[26]

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of a cost which is recovered only after final rates are established.

Using the principles discussed above, staff calculated an adjusted interim revenue requirement of $1,262,594 for water and $846,901 for wastewater utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Additionally, the Utility incurred no tax liability during the interim period; therefore, the effective tax rate was zero percent for the interim period due to the offset of the NOL carry-forwards as discussed in Issue 14. The adjusted water interim revenue requirement of $1,262,594 is lower than the interim revenue requirement of $1,350,198 granted in the Interim Order. This results in 6.49 percent required refund for water. The adjusted wastewater interim revenue requirement of $846,901 is lower than the interim revenue requirement of $907,479 granted in the Interim Order. This results in 6.68 percent required refund for wastewater.

[26] See Order No. PSC-12-0554-PCO-WS, issued October 17, 2012, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

Issue 20: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

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. Wedgefield 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. (Thompson, Hudson)

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 $12,762 and $12,222 for water and wastewater, respectively. Using Wedgefield's current revenues, expenses, capital structure and customer base, the reduction in revenues 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. Wedgefield 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 21: 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 the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

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

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

Issue 22: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the escrow account should be released. (Lawson, VanEsselstine, Fletcher)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the escrow account should be released.

Pluris Wedgefield, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/11

Schedule No. 1-A
Docket No. 120152-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$7,386,857	$44,665	$7,431,522	$137,098	$7,568,620
2	Land and Land Rights	5,407	0	5,407	(3,964)	1,443
3	Non-used and Useful Components	0	(93,228)	(93,228)	(9,787)	(103,015)
4	Accumulated Depreciation	(2,250,019)	(1,608)	(2,251,627)	(6,733)	(2,258,360)
5	CIAC	(1,411,363)	0	(1,411,363)	(8,410)	(1,419,773)
6	Amortization of CIAC	579,912	0	579,912	0	579,912
7	Working Capital Allowance	72,755	1,584	74,339	(3,370)	70,969
8	**Rate Base**	$4,383,549	($48,587)	$4,334,962	$104,834	$4,439,796

Pluris Wedgefield, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/11

Schedule No. 1-B
Docket No. 120152-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$7,843,119	$11,082	$7,854,201	($261,648)	$7,592,553
2	Land and Land Rights	96,500	0	96,500	0	96,500
3	Non-used and Useful Components	0	(264,027)	(264,027)	(14,186)	(278,213)
4	Accumulated Depreciation	(4,401,148)	(616)	(4,401,764)	78,015	(4,323,749)
5	CIAC	(3,997,722)	0	(3,997,722)	0	(3,997,722)
6	Amortization of CIAC	1,723,879	0	1,723,879	0	1,723,879
7	Working Capital Allowance	74,230	1,252	75,482	(3,361)	72,121
8	**Rate Base**	$1,338,858	($252,309)	$1,086,549	($201,180)	$885,369

	Pluris Wedgefield, Inc. Adjustments to Rate Base Test Year Ended 12/31/11		Schedule No. 1-C Docket No. 120152-WS
	Explanation	**Water**	**Wastewater**
	Plant In Service		
1	To reflect agreed-upon audit adjustments. (Issue 2)	$95,740	($118,384)
2	To remove unsupported wastewater plant amount. (Issue 3)	0	(135,285)
3	To reflect the pro forma plant improvements. (Issue 4)	41,358	(7,979)
	Total	$137,098	($261,648)
	Land		
	To reflect agreed-upon audit adjustments. (Issue 2)	($3,964)	$0
	Non-used and Useful		
	To reflect net non-used and useful adjustment. (Issue 5)	($9,787)	($14,186)
	Accumulated Depreciation		
1	To reflect agreed-upon audit adjustments. (Issue 2)	($51,596)	$51,596
2	To remove unsupported wastewater plant amount. (Issue 3)	0	17,184
3	To reflect the corresponding pro forma adjustments. (Issue 4)	44,863	9,235
	Total	($6,733)	$78,015
	CIAC		
1	CIAC from improper online billing. (Issue 10)	($8,080)	$0
2	To appropriately reflect revenue from meter installation. (Issue 10)	(330)	0
	Total	($8,410)	$0
	Working Capital		
	To reflect appropriate working capital. (Issue 6)	($3,370)	($3,361)

Pluris Wedgefield, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/11

Schedule No. 2
Docket No. 120152-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$4,218,721	$0	$4,218,721	($942,026)	$3,276,695	60.44%	6.51%	3.93%
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	2,736,042	0	2,736,042	($610,998)	2,125,044	39.20%	11.16%	4.37%
5	Customer Deposits	19,771	0	19,771	$0	19,771	0.36%	6.00%	0.02%
6	Deferred Taxes	0	0	0	$0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$6,974,534	$0	$6,974,534	($1,553,024)	$5,421,510	100.00%		8.33%
Per Staff									
8	Long-term Debt	$4,218,721	($252,431)	$3,966,290	($946,018)	$3,020,272	56.72%	6.51%	3.69%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	2,736,042	252,431	2,988,473	(712,795)	2,275,678	42.73%	10.88%	4.65%
12	Customer Deposits	19,771	0	19,771	0	19,771	0.37%	6.00%	0.02%
13	Deferred Taxes	0	9,444	9,444	0	9,444	0.18%	0.00%	0.00%
14	**Total Capital**	$6,974,534	$9,444	$6,983,978	($1,658,813)	$5,325,165	100.00%		8.36%

	LOW	HIGH
RETURN ON EQUITY	9.88%	11.88%
OVERALL RATE OF RETURN	7.94%	8.79%

	Pluris Wedgefield, Inc. Statement of Water Operations Test Year Ended 12/31/11							Schedule No. 3-A Docket No. 120152-WS
	Description	**Test Year Per Utility**	**Utility Adjust-ments**	**Adjusted Test Year Per Utility**	**Staff Adjust-ments**	**Staff Adjusted Test Year**	**Revenue Increase**	**Revenue Requirement**
1	**Operating Revenues:**	$985,446	$394,536	$1,379,982	($396,170)	$983,812	$389,470	$1,373,282
							39.59%	
	Operating Expenses							
2	Operation & Maintenance	$582,041	$12,664	$594,705	($26,950)	$567,755		$567,755
3	Depreciation	194,204	(2,817)	191,387	3,871	195,258		195,258
4	Taxes Other Than Income	46,499	68,700	115,199	12,612	127,811	17,526	145,337
5	Income Taxes	3,734	114,288	118,022	(140,474)	(22,452)	116,099	93,646
6	**Total Operating Expense**	826,478	192,835	1,019,313	(150,942)	868,371	133,625	1,001,996
7	**Operating Income**	$158,968	$201,701	$360,669	($245,228)	$115,441	$255,845	$371,286
8	**Rate Base**	$4,383,549		$4,334,962		$4,439,796		$4,439,796
9	**Rate of Return**	3.63%		8.32%		2.60%		8.36%

Pluris Wedgefield, Inc. | **Schedule No. 3-B**
Statement of Wastewater Operations | **Docket No. 120152-WS**
Test Year Ended 12/31/11

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$731,559	$182,329	$913,888	($181,885)	$732,003	$148,110	$880,113
							20.23%	
	Operating Expenses							
2	Operation & Maintenance	$593,839	$10,012	$603,851	($26,879)	$576,972		$576,972
3	Depreciation	122,448	(24,010)	98,438	(9,523)	88,915		88,915
4	Taxes Other Than Income	143,052	(50,500)	92,552	20,802	113,354	6,665	120,019
5	Income Taxes	0	28,646	28,646	(52,631)	(23,985)	44,151	20,166
6	**Total Operating Expense**	859,339	(35,852)	823,487	(68,230)	755,257	50,816	806,072
7	**Operating Income**	($127,780)	$218,181	$90,401	($113,655)	($23,254)	$97,294	$74,041
8	**Rate Base**	$1,338,858		$1,086,549		$885,369		$885,369
9	**Rate of Return**	-9.54%		8.32%		-2.63%		8.36%

Pluris Wedgefield, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/11

Schedule No. 3-C
Docket No. 120152-WS

	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase.	($394,536)	($182,329)
2	To reflect the appropriate amount of test year revenues. (Issue 10)	(1,634)	444
	Total	($396,170)	($181,885)
	Operation and Maintenance Expense		
1	Contractual Services - Mgmt Fees. (Issue 11)	($34,710)	($34,710)
2	Rate Case Expense. (Issue 12)	(1,680)	(1,609)
3	Pro Forma Controller. (Issue 13)	9,439	9,439
	Total	($26,950)	($26,879)
	Depreciation Expense - Net		
1	To reflect agreed-upon audit adjustments. (Issue 2)	$5,597	($4,976)
2	To remove unsupported wastewater plant amount. (Issue 3)	0	(4,318)
3	To reflect the corresponding pro forma adjustments. (Issue 4)	(2,028)	(391)
4	To remove net depreciation on non-U&U adjustment above. (Issue 5)	302	163
	Total	$3,871	($9,523)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($17,828)	($8,185)
2	Reflect the appropriate pro forma property taxes. (Issue 4)	2,243	207
3	To reflect appropriate non-U&U property taxes. (Issue 5)	(894)	(2,465)
4	To reflect appropriate test year property taxes. (Issue 13)	29,091	31,245
	Total	$12,612	$20,802

Pluris Wedgefield, Inc. **Schedule No. 4-A**
Test Year Ended 12/31/11 **Docket No. 120152-WS**
Monthly Water Rates

	UTILITY'S EXISTING RATES	COMMISSION APPROVED INTERIM**	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential				
All Meter Sizes				
Base Facility Charge by Meter Size:				
5/8"X3/4"	$23.39	$32.34	$24.53	$0.24
3/4"	$35.09	$48.51	$36.80	$0.35
1"	$58.49	$80.86	$61.33	$0.59
1-1/2"	$116.97	$161.70	$122.65	$1.18
2"	$187.14	$258.71	$196.24	$1.88
3"	$374.29	$517.43	$392.48	$3.77
4"	$584.83	$808.49	$613.25	$5.89
6"	$1,169.65	$1,616.97	$1,226.50	$11.78
Residential Service and RS Irrigation Gallonage Chg.				
0 - 5,000 gallons	$4.04	$5.59	$7.73	$0.07
5,001 - 10,000 gallons	$5.05	$6.98	$9.57	$0.09
Over 10,000	$8.09	$11.18	$14.36	$0.14
General Service and GS Irrigation Gallonage Chg.				
Per 1,000 Gallons	$5.02	$6.94	$8.71	$0.08
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	$35.51	$49.11	$47.72	
5,000 Gallons	$43.59	$60.29	$63.18	
10,000 Gallons	$68.84	$95.19	$111.03	

** Subsequent to the implementation of interim rates, rates were reduced by 3.46% to remove rate case expense from previous rate case pursuant to Order No. PSC-08-0827-PAA-WS

Pluris Wedgefield, Inc. **Test Year Ended 12/31/11** **Monthly Wastewater Rates**				**Schedule No. 4-B** **Docket No. 120152-WS**
	UTILITY'S EXISTING RATES	**COMMISSION APPROVED INTERIM**	**STAFF RECOMMENDED RATES**	**4 YEAR RATE REDUCTION**
Residential				
Base Facility Charge - All Meter Sizes	$21.07	$26.12	$28.58	$0.40
Gallongage Charge				
Per 1,000 Gallons (8,000 gallon cap)	N/A	N/A	$4.17	$0.06
Per 1,000 Gallons (10,000 gallon cap)	$3.82	$4.74	N/A	N/A
General Sevice				
Base Facility Charge by Meter Size:				
5/8"X3/4"	$21.07	$26.12	$28.58	$0.40
3/4"	$31.64	$39.22	$42.87	$0.60
1"	$52.74	$65.38	$71.45	$0.99
1-1/2"	$105.44	$130.72	$142.90	$1.98
2"	$168.73	$209.18	$228.64	$3.18
3"	$337.44	$418.33	$457.28	$6.35
4"	$528.09	$654.68	$714.50	$9.92
6"	$843.60	$1,045.83	$1,429.00	$19.84
General Service Gallonage Chg.				
Per 1,000 Gallons	$4.56	$5.65	$5.00	$0.07
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
3,000 Gallons	$32.53	$40.34	$41.09	
5,000 Gallons	$40.17	$49.82	$49.43	
10,000 Gallons	$59.27	$73.52	$61.94	