

State of Florida



# Public Service Commission

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

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**DATE:** April 12, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (T. Brown, Cicchetti, Fletcher, Maurey, Prestwood) *CSP*  
Division of Economics (King, Stallcup) *PK*  
Office of the General Counsel (Barrera, Lawson) *JCL MKP*

**RE:** Docket No. 110200-WU – Application for increase in water rates in Franklin County by Water Management Services, Inc.

**AGENDA:** 04/25/13 – Regular Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

**COMMISSIONERS ASSIGNED:** Edgar, Balbis, Brown

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 05/12/13 (8-Month Effective Date)

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\110200.RCM.DOC

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### Case Background

Water Management Services, Inc. (WMSI or Utility) is a Class A utility providing service to approximately 1,808 water customers in Franklin County. For the year ended December 31, 2011, the Utility reported operating revenues of \$1,384,646 and net operating income of \$58,939. WMSI's last rate case was in 2010.<sup>1</sup>

On November 7, 2011, the Utility filed its application for 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 13-month average period ended December 31, 2010. The Utility's application did not meet the minimum filing requirements (MFRs) as filed, and it was not until February 17, 2012, that the MFRs were determined to be complete. This date was set as the official date of filing.

By Order No. PSC-12-0030-PCO-WU, issued January 19, 2012, the Commission approved interim rates designed to generate annual revenues of \$1,417,664.<sup>2</sup> This represents a revenue increase on an annual basis of \$115,803 or 8.90 percent. The interim rates are subject to refund with interest, pending the conclusion of the rate case.

On January 20, 2012, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on January 23, 2012.<sup>3</sup>

Subsequently, by PAA Order No. PSC-12-0435-PAA-WU (PAA Order), issued August 22, 2012, the Commission approved rates designed to generate a total water revenue requirement of \$1,811,648.<sup>4</sup> On September 12, 2012, OPC timely filed a protest of portions of the PAA Order. By letter dated September 13, 2012, WMSI gave notice that it elected to put the rates approved in the PAA Order into effect during the pendency of the administrative hearing pursuant to Section 367.081(8), Florida Statutes (F.S.). On September 19, 2012, WMSI timely filed a cross-petition.

A formal hearing and service hearings were held January 16 and 17, 2013, on St. George Island. The parties filed briefs on February 11, 2013.

This recommendation addresses the parties' protested issues, revenue requirement, and rates that should be approved on a prospective basis. The PAA issues not protested have been deemed stipulated pursuant to Section 120.80(13)(b), F.S. A list of these issues can be found in Attachment A. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

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<sup>1</sup> See Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

<sup>2</sup> See Order No. PSC-12-0030-PCO-WU, issued January 19, 2012, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

<sup>3</sup> See Order No. PSC-12-0034-PCO-WU, January 23, 2012, in Docket No. 110200-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

<sup>4</sup> See Order No. PSC-12-0435-PAA-WU, issued August 22, 2012, in Docket No. 110200-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

## Discussion of Issues

### RATE BASE

**Issue 1:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is zero, which results in a reduction in the Utility's working capital allowance of \$39,885. (T. Brown, Fletcher)

### Position of the Parties

**WMSI:** WMSI is entitled to a working capital allowance based upon 1/8 of operating and maintenance expenses established in this docket.

**OPC:** The working capital allowance should be zero as was determined by PAA Order No. PSC-12-0435-PAA-WU. Commission Rule 25-30.115, F.A.C. requires the balance sheet approach for Class A utilities and the Utility did not provide sufficient justification to use another method.

**Staff Analysis:** WMSI proposed that the Commission use one-eighth of operations and maintenance expense to determine the appropriate working capital allowance, the same methodology used by Class B and C utilities. (TR 41, 56) WMSI witness Allen testified that because any normal viable company requires a working capital allowance to pay its current liabilities as they come due, the Utility's working capital allowance should be \$129,873. Witness Allen stated that the Commission's practice of adjusting a negative working capital to zero only "perpetuates the problem." (TR 56) Similarly, WMSI witness Guastella advocated the use of a more representative analysis because the balance sheet approach produces "questionable results." (TR 40)

WMSI witness Guastella testified "it seems that the Commission has recognized that although WMSI has become a Class A utility, it has yet to become a typical utility in terms of its financial position and cash flow." (TR 41) In addition, WMSI witness Brown testified that the Utility's transition from a Class B to a Class A utility should not preclude it from being allowed a working capital allowance. (TR 348) According to WMSI witness Brown, the Utility is entitled to have a working capital allowance included in rate base. (TR 348)

OPC proposed that the appropriate working capital allowance should remain what was approved and established by the PAA Order. OPC witness Schultz testified that WMSI's proposed handling of working capital "is only appropriate if the utility uses investor provided funds to operate the company." (TR 153) In WMSI's case, OPC's witness contended that "investors have not provided interest free debt; therefore, there are no investor loans that can be considered as a source of working capital." (TR 153) Witness Schultz asserted that, because WMSI has not shown that it has issued sufficient equity or debt as a source of investor funds, it is not entitled to any working capital allowance. (TR 154)

Staff believes that WMSI is not the start-up developer-related utility WMSI witness Guastella has implied in his testimony. (TR 39-41, 43-44) WMSI has been in existence since

1974 and has been a Class A utility since at least 2003, according to the Utility's annual reports. (EXH 19, EXH 24, BSP 27-28) The Utility does not dispute that it is, in fact, a Class A utility. (EXH 60, BSP 75)

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. The balance sheet approach generally defines working capital as current assets and deferred debits that are utility-related, and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility-related and upon which a utility does not already pay a return.<sup>5</sup> No compelling reasons have been provided in the record to support a departure from that methodology here, and there is also no Commission precedent carving out an exception. (EXH 60, BSP 75-76) Accordingly, staff recommends that the balance sheet method approved by the Commission in the Utility's last rate case,<sup>6</sup> and used by the Utility in the filing of its MFRs,<sup>7</sup> be approved here. This is consistent with the methodology used by the other Class A water utilities operating within the Commission's jurisdiction.

Moreover, it is Commission practice to include one-half of the unamortized amount of rate case expense approved in a prior case and one-half of the approved amount from the instant case in the working capital calculation for Class A water and wastewater utilities.<sup>8</sup> As approved in the PAA Order, the appropriate amount of unamortized rate case expense (URCE) to include in the working capital allowance was determined to be \$176,850. The URCE approved in the PAA Order is not in dispute by any party and is stipulated pursuant to Section 120.80(13)(b), F.S. However, an adjustment does need to be made to account for the additional rate case expense associated with the protest. In Issue 7, staff is recommending rate case expense of \$108,271 for the protest. Consistent with long-standing Commission practice, one-half of the total rate case expense, or \$53,614, should be included in the working capital allowance. As such, the appropriate total amount of URCE here is \$230,986 (\$176,850 + \$54,136). In its filing, the Utility included \$339,180 in its working capital allowance for the 2010 and current rate case expense. Staff recommends that the URCE included in the working capital should be decreased by \$108,194 (\$230,986 - \$339,180).

The summation of the Commission's previously-approved adjustments and staff's recommended additional adjustments contained in other issues, results in a negative working capital allowance of \$68,309 (\$39,885 - \$108,194). A negative working capital balance is not

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<sup>5</sup> See Order Nos. PSC-12-0435-PAA-WU, pp.15-16; Order No. PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WU, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., p.18; and Order No. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., p. 7.

<sup>6</sup> See Order No. PSC-11-0010-SC-WU.

<sup>7</sup> On MFR Schedule A-17, the Utility reflected working capital of \$39,885 using the balance sheet approach. (TR 56)

<sup>8</sup> See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company; 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.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

typical of a "normal" utility or the expected future condition of a utility.<sup>9</sup> Therefore, consistent with Commission practice,<sup>10</sup> staff recommends that the working capital allowance be set at zero, which results in a reduction in the Utility's working capital allowance of \$39,885.

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<sup>9</sup> See Order Nos. PSC-12-0435-PAA-WU, p.16; PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC., p.5.

<sup>10</sup> See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, In re: Application for staff-assisted rate case in DeSoto County by Lake Suzy Utilities, Inc.; PSC-97-0076-FOF-WS, issued January 27, 1997, in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for possible overearnings; and PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

Docket No. 110200-WU

Date: April 12, 2013

**Issue 2:** What is the appropriate rate base for the test year ended December 31, 2010?

**Recommendation:** Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2010, is \$7,084,897. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** Fall-out from other issues.

**Staff Analysis:** Based on staff's recommended adjustments, the appropriate rate base is \$7,084,897. Schedule No. 1-A reflects staff's recommended rate base calculation. Staff's proposed adjustments to rate base are shown on Schedule No. 1-B.

### **COST OF CAPITAL**

**Issue 3:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2010 is 5.61 percent. Accordingly, a corresponding adjustment should be made to increase O&M expense by \$39,258 to reflect the appropriate amount of life insurance policy expense. Due to the removal this expense from the effective cost rate of long-term debt issuance, the overall long-term debt cost rate is 5.60 percent. (Cicchetti)

### **Position of the Parties**

**WMSI:** The appropriate weighted cost of capital is 5.96%.

**OPC:** The appropriate weighted average cost of capital should remain at 5.51%.

**Staff Analysis:** In its filing, the Utility requested an overall cost of capital of 5.96 percent. (EXH 3; TR 56-57) The Utility's weighted average cost of capital contained a long-term debt cost rate of 5.96 percent. (EXH 3; TR 56-57) This long-term debt cost rate on a Centennial Bank loan is 8.46 percent based on the payment of \$39,258 per year for the \$3,000,000 of life insurance on the owner, Mr. Brown. (WMSI BR 2-3; TR 56-57)

OPC asserted that the weighted average cost of capital should remain at 5.51 percent. (OPC BR 31) OPC stated the cost of the life insurance policy on WMSI owner Mr. Brown that is collateral for a Centennial Bank loan should not be included in the long-term debt cost rate. (OPC BR 31; TR 154-155)

Staff made an adjustment to the long-term debt cost rate by removing the cost of the life insurance policy expense of \$39,258 from the long-term debt cost rate, and treating this amount as O&M expense. (TR 56-57, 154-155) Staff's adjustment reduced the long-term debt cost rate to 5.60 percent and the overall weighted average cost of capital to 5.61 percent. Staff has included the cost of life insurance in O&M expenses because obtaining the policy was a requirement by the bank for making the loan.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, the overall weighted average cost of capital is 5.61 percent. Schedule No. 2 details staff's recommended overall cost of capital.



**NET OPERATING INCOME**

**Issue 4:** Should any adjustments be made to contractual services - accounting expense?

**Recommendation:** Yes, contractual services – accounting expense should be reduced by \$5,883. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** Yes. Accounting expenses should be increased by \$1,548 over the PAA Order amount to reflect a five-year average.

**OPC:** Yes. Contractual Services – Accounting expense requested in the Utility’s Minimum Filing Requirements (MFRs) should be reduced to \$3,667 as established by PAA Order No. PSC-12-0435-PAA-WU.

**Staff Analysis:** WMSI requested recovery of contractual services – accounting expense based on a five-year average of actual, documented accounting expense as allowed in the last case. WMSI witness Allen argued that rather than applying the same methodology used in the previous rate case, the Commission approved the same dollar amount calculated in the 2009 case, without even an inflationary increase. As a result, witness Allen claimed that the level of accounting service expense previously approved by the PSC is inadequate. (TR 57, 65, 67-68)

Witness Allen asserted, at a minimum, that the Commission use the same methodology applied in the previous rate case by approving accounting expenses calculated based on the five-year average of actual expenses from 2006 through the 2010 test year. (TR 57-58, 64, 68) According to witness Allen, the appropriate amount of accounting expense based on the 5-year average is \$5,252, and entitles the Utility to an increase of \$1,585 over the PAA amount. (TR 57-58, 65, 68; EXH 6) Even with the increase, witness Allen asserted that on a going-forward basis, actual accounting expenses will likely far exceed the amount being requested by the Utility. (TR 65)

OPC witness Schultz argued that while WMSI’s request for an increase in costs may be appropriate, the Utility has not met its burden of proof for justifying the change. (TR 155) OPC’s witness alleged that the increase in expense calculated by WMSI witness Allen is skewed upward by the inclusion of accounting expenses of \$18,550 for 2010. Additionally, witness Schultz claimed that there is no explanation for the change in cost, which is something that should have been addressed by the Utility. Witness Schultz also expressed concern that based on the aged accounts payable as of December 31, 2011, \$4,500 of accounting costs for 2010 were still not paid. (TR 155; EXH 42, p. 12) OPC noted in its post-hearing brief that the Utility protested this issue. As such, if the Utility’s position does not prevail, OPC proposes that rate case expense be reduced 1/12. (OPC BR 32-33)

Witness Schultz’s concerns related to any unpaid portion of contractual services – accounting expense and other previously-authorized rate case expense will be more thoroughly addressed in Issue 6. WMSI witness Brown has testified that the bill for this work, including the \$4,500 referenced by witness Schultz, has been paid in full. (TR 348) Staff will address any

potential reduction to current rate case expense in Issue 7. As for the skewing of the increase mentioned by OPC witness Schultz, staff notes that the inclusion does skew the result upward. It is equally important to recognize that expenses for years such as 2006 (\$698) and 2008 (\$535), as shown in EXH 6, similarly skew the five-year average lower. (TR 64)

In the previous rate case, the Commission-approved amount for normal recurring accounting expense was calculated by applying the 5-year average of actual expenses from 2005 through the 2009 test year in that case, which resulted in expenses of \$3,667. In the current rate case, WMSI’s witness Allen argued that the appropriate amount of accounting expense based on the 5-year average (2006-2010) is \$5,252. (EXH 6) However, witness Allen included \$18,550 of actual accounting expenses for the current test year in the 5-year average. WMSI witness Brown testified that the accounting expense was primarily for extensive work on plant depreciation schedules and other complicated accounting issues to comply with NARUC standards. (TR 348)

Staff believes the Utility’s use of \$18,550 for accounting expense in its 5-year calculation is not appropriate because WMSI recorded contractual services – accounting expense of only \$9,550 in its MFRs for the current test year. (TR 57) Further, while some fluctuation is to be expected, staff notes that there are extreme variations in accounting expenses, as shown in Table 4-1.

Table 4-1

Contractual Services – Accounting Expense 2005-2010		
<u>Year</u>	<u>Acct. Expense (Annual Report)</u>	<u>% Change from Previous Year</u>
2005	\$10,626	
2006	\$698	-93%
2007	\$2,250	222%
2008	\$535	-76%
2009*	\$4,225	690%
2010**	\$18,550	339%

\* Test year in Docket No. 100104-WU.

\*\* Test year in current docket.

If the \$9,550 MFR amount is used in the 5-year average calculation, it would equate to an average calculation of \$3,452, which is less than the amount of \$3,667 that was approved in WMSI’s last rate proceeding. Given the above, staff believes that given the proximity of the test years and the lack of additional support provided for the request, the Utility has not proven that its requested increase in contractual services – accounting expense is warranted. No evidence was presented documenting additional duties required by the outside accountant or that the work being performed has changed substantially since the last rate case. As such, staff recommends that contractual services - accounting expense should be reduced by the Utility’s requested increase, \$5,883. The resulting contractual services - accounting expense is \$3,667 (\$9,550 - \$5,883), the same amount approved in the last rate case and authorized in the PAA order in the instant case.

**Issue 5:** Should any adjustments be made to transportation expense?

**Recommendation:** Yes, transportation expense should be reduced by \$218. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** Yes. Transportation expense should be increased by \$8,916 over the PAA Order amount to reflect business usage of Mr. Brown's and Ms. Chase's vehicles.

**OPC:** Yes. Transportation expense requested in the MFRs should be reduced by \$8,989 to \$31,721 as established by PAA Order No. PSC-12-0435-PAA-WU.

**Staff Analysis:** WMSI argued that the Commission's prior adjustment to transportation expense effectively disallowed any level of normal and routine travel expenses for President, Mr. Brown and Vice President, Ms. Chase. Witness Allen alleged that there is a reasonable and necessary amount of travel expense that is incurred for normal routine utility-related business. (TR 65) As such, WMSI argued that transportation expense should be increased by \$8,916. (TR 58-59) Witness Allen claimed that the requested transportation expenses were based on estimates of the actual costs incurred and documented on an annual basis for 2011, the first year that the Utility was required to maintain such documentation for these two employees. (TR 66) WMSI witness Brown also noted that while the Utility requested only \$8,916, WMSI recorded a total annual reimbursement of \$9,323, on its books. (TR 347)

In its MFRs, the Utility reflected a net adjustment for transportation expense of \$3,177. Witness Allen suggested that the Commission made several adjustments to transportation expense, including the reversal of the adjustment for test year expenses of \$3,177 and a further reduction of \$5,739 for expenses deemed non-utility related. Witness Allen stated that this net adjustment was comprised of reductions for certain gas purchases and repairs and maintenance costs totaling \$5,739 that the Utility recognized should have been removed from test year expenses and an estimate for mileage reimbursements of \$6,096 for Mr. Brown and \$2,829 for Ms. Chase, totaling \$8,916. (TR 58)

Witness Allen noted that the Commission approved similar travel related expenses for office employees in the past as reasonable and necessary, and to deny any level of expenses now is unreasonable. (TR 65) In support, witness Allen claimed that the Utility began maintaining mileage logs for the office staff in accordance with the final order in the previous case, which was issued on January 3, 2011. Witness Allen noted that the show cause order,<sup>11</sup> clarified that the 1994 order requiring mileage logs applied only to the field employees. (TR 65-66) Accordingly, witness Allen contended that there was no requirement for Mr. Brown and Ms. Chase to maintain mileage logs in the test year for the current docket. (TR 65-66) The Utility indicated in its post-hearing brief that this Commission must either accept the mileage logs from 2011 as reasonable transportation expense in 2010 or impute a reasonable amount as it had done before. (WMSI BR 7; EXH 70, p. 302)

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<sup>11</sup> See Order No. PSC-11-0250-FOF-WU, issued June 13, 2011, Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc., pp. 4-5.

OPC witness Schultz asserted that the Utility's transportation costs should be disallowed because WMSI failed to provide the appropriate supporting mileage logs. (TR 156-157) According to witness Schultz, WMSI's attempt to offer the 2011 logs as a surrogate for 2010 costs is an after-the-fact step to correct for past errors. (TR 156-157) As such, witness Schultz claimed that the Commission's disallowance is appropriate since the Utility was effectively put on notice in the last rate case in regard to the documentation necessary in order to be compensated for the costs in question. Witness Schultz stated that the Utility failed to meet their obligation in this case. (TR 156-157, 212; OPC BR 34) Witness Schultz added that when a utility seeks recovery of costs in a rate case, it must have documentation to support those costs. (TR 212-213)

In its post-hearing brief, OPC alleged that WMSI provided no evidence supporting why Mr. Brown, Ms. Chase, and the other administrative staff are not located nearer to the actual operations of the Utility. (OPC BR 34) Additionally, OPC stated that it was unclear how customers, and WMSI, benefited from the Utility having two offices located many miles apart. (OPC BR 34) As such, OPC indicated that it was not in the best interest of the customers to continue paying this transportation expense. (OPC BR 34) According to OPC, the Utility has not supported its request for transportation expense, has failed to carry its burden of proof on its protested issue, and as a result, overall rate case expense should be reduced by 1/12. (OPC BR 34) Staff addresses current rate case expense and any potential adjustments in Issue 7.

In the PAA Order, the Commission decreased transportation expense by \$8,989.<sup>12</sup> A small portion of that adjustment, \$73, was related to unsupported transportation expense identified in the staff audit. Based on the record, staff believes that the \$73 associated with unsupported transportation expense is uncontested and, as a result, has been carried over with the non-protested adjustments made in the PAA Order and identified in the Attachment A and Schedule 3-B. The remainder, \$8,916 (\$8,989 - \$73), has been protested and is discussed below.

While staff believes that the Utility was effectively put on notice as a result of the 1994 order that travel records would be required in future proceedings, staff acknowledges that there was no "formal" Commission requirement that they maintain mileage logs for administrative staff until the Commission's decision in January 2011.<sup>13</sup> Prior to the issuance of Order No. 11-0010-SC-WU in the last rate case, there was no order or requirement for Mr. Brown or Ms. Chase to maintain individual travel logs for the company vehicles. As such, staff believes the first year that the Utility was required to maintain such documentation for Mr. Brown and Ms. Chase was 2011. Staff still believes that mileage logs would have been a valuable expense tracking mechanism for management, but without a requirement that logs be kept for Mr. Brown and Ms. Chase, the Utility should be allowed to recover a reasonable and necessary amount of travel expense incurred for routine utility-related business.

In the absence of actual mileage logs for the test year, staff believes the mileage logs provided by the Utility for 2011 represent a good starting point. Staff notes that ratemaking is

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<sup>12</sup> See Order No. PSC-12-0435-PAA-WU, p. 19.

<sup>13</sup> See Order No. PSC-11-0010-SC-WU.

prospective in nature and it is Commission practice to make known and measurable changes.<sup>14</sup> Those logs reflect a total of \$9,323<sup>15</sup> in actual transportation expense for Mr. Brown and Ms. Chase in 2011. (TR 58; EXH 69) The Utility used this amount to estimate expenses for 2010, which it determined to be \$8,916, some 4.35 percent less than the 2011 mileage logs. (EXH 7; EXH 69) However, the Utility did not provide an explanation of what was included in the 4.35 percent reduction.

Staff believes that, based on the record, additional adjustments should be made for mileage that appeared to be out of the ordinary and lacked explanation. Staff identified two entries, both in Mr. Brown's mileage logs, that should be removed from the Utility's transportation expense. The first adjustment relates to an entry for 450 miles to St. Petersburg in February 2011. The second relates to an entry for 592 miles to Bradenton in September 2011. (EXH 69) In both instances, no explanation was provided for mileage which was clearly outside the Utility's service territory. Staff notes that in another September entry, the Utility provided an explanation for mileage to Orlando when it related to a Commission-sponsored workshop. (EXH 69) No such explanation was provided for the St. Petersburg or Bradenton mileage. As such, staff believes the amounts associated with those entries should be removed from Mr. Brown's mileage reimbursement.

No detailed explanation of what was excluded from the Utility's estimated expenses was provided, so it is not known whether the Utility included any mileage adjustments in its estimated expenses or not. Consequently, staff recommends reducing Mr. Brown's 2011 mileage reimbursement by \$270 (450 miles x \$0.60) for St. Petersburg mileage, and by an additional \$355 (592 miles x \$0.60) for Bradenton mileage, for a total of \$625 (\$270 + \$355). (EXH 69) As a result, staff's recommended 2011 mileage reimbursement for Mr. Brown is approximately \$5,434 (\$6,059<sup>16</sup> - \$625). Given this adjustment, staff believes that the total actual mileage reimbursement for Mr. Brown and Ms. Chase should be approximately \$8,698 (\$5,434 + \$3,264).

Staff believes the appropriate adjustment is the difference between the Utility's estimated transportation expense and staff's adjusted 2011 mileage reimbursement. This represents a difference of \$218 (\$8,916 - \$8,698). Accordingly, the correct adjustment in Schedule 3-B should reflect a decrease in transportation expense of \$218.

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<sup>14</sup> See Order Nos. PSC-12-0179-FOF-EI, issued April 3, 2012, in Docket No. 110138-EI, In re: Petition for increase in rates by Gulf Power Company, pp. 11-12; PSC-11-0199-PAA-WU, issued April 22, 2011, in Docket No. 100149-WU, In re: Application for increase in water rates in Lee County by Ni Florida, LLC, p. 9; and PSC-08-0622-PAA-WS, issued September 24, 2008, in Docket No. 060540-WU, In re: Application for increase in water rates in Pasco County by Colonial Manor Utility Company, p. 10.

<sup>15</sup> Approximately \$6,059 of actual expense for Mr. Brown and \$3,264 for Ms. Chase were documented in the record, totaling \$9,323 (\$6,059 + \$3,264). (EXH 7)

<sup>16</sup> Id.

**Issue 6:** Should an adjustment be made to rate case expense previously authorized by Order No. PSC-11-0010-SC-WU, currently being amortized in customer rates, and if so, in what amount?

**Recommendation:** No adjustment should be made to rate case expense previously authorized by Order No. PSC-11-0010-SC-WU. (T. Brown, Fletcher, Barrera)

**Position of the Parties**

**WMSI:** No. This Commission has determined the reasonableness of the rate case expense and it is being paid by WMSI.

**OPC:** Yes. The Commission should remove from customer rates the unpaid portion of rate case expense previously approved in the last rate case. For any amount allowed to remain in rates, the Commission should require that the previously approved rate case expense be paid and the Utility submit quarterly proof of payments.

**Staff Analysis:**

**Parties' Arguments**

WMSI argued that OPC's concerns that prior rate case expense will not be paid are without justification and contrary to WMSI witness Brown's testimony. Likewise, the Utility claimed the suggestion of removing unpaid prior rate case expense that is currently embedded in rates, or requiring WMSI to establish a repayment schedule, is without any support of law or fact. (WMSI BR 7)

According to WMSI witness Brown, if the prior Commission-approved rate case expense of \$229,000 was spread over 48 months, it would essentially require payment of \$4,771 per month (\$229,000/48). (TR 333, 449) Witness Brown noted that there is no Commission rule requiring all rate case expenses to be paid within the four-year amortization period. (TR 333) Witness Brown testified that the Utility is now paying \$4,500 a month. (TR 333) WMSI has agreed to pay \$2,000 per month to Radey, Thomas, Yon, and Clark (RTYC), \$2,000 per month to Frank Seidman, and \$500 per month to Post, Buckley, Schuh, and Jernigan (PBSJ). (TR 333) Of those amounts, witness Brown claimed that OPC appeared to be most concerned with the RTYC bill and related payments. Witness Brown asserted that WMSI and RTYC have agreed to the \$2,000 per month payments until paid, or until WMSI is sold. (TR 332, 449) As such, witness Brown indicated that the amounts referenced above are reasonable and should not be disturbed. (TR 333)

OPC alleged that it is undisputed that the Utility stopped making payments to its law firm during the last rate case and then attempted to negotiate a legal bill less than the amount authorized by Order No. PSC-11-0010-SC-WU. (OPC BR 17; EXH 107, BSP 01, 07-10, 18-19, 25, 29-31, 36-38; TR 237) OPC stated that the circumstances are extraordinary in nature and, as a result, the Commission has authority to alter previously entered final rate orders. (OPC BR 16-17) According to OPC witness Vandiver, this issue presents a case of first impression for the Commission. (TR 240)

OPC recommended that the Commission remove from rates the remaining balance of unpaid legal fees previously approved by the Commission effective the date of the administrative hearing. Further, in light of the Utility's alleged slow payment of rate case expense to other consultants from the last rate case, OPC urged the Commission to consider removing all or some of the previously-approved rate case expense for the other consultants which at the time of the contested hearing still remains unpaid. (EXH 107, BSP 15; TR 240) OPC claimed that it is only fair that the Utility's customers not be required to pay rate case expense when there is a history of non-payment and no assurance that the Utility will continue making payments following the conclusion of this contested proceeding. (OPC BR 16; TR 234, 238-39) If any portion of previously authorized rate case expense remains in rates, OPC asserted that the Commission should require the filing of quarterly reports in the docket file, showing the amounts being paid and the remaining balance, in order to verify that the Utility is complying with its order. (OPC BR 17)

### Legal Analysis

OPC argued that the Commission remove from rates the remaining balance of unpaid legal fees previously approved by the Commission by Order No. PSC-11-0010-SC-WU, effective the date of the administrative hearing. OPC argued that since WMSI has been on notice since the date of OPC's protest, the issue of retroactive ratemaking to remove the rates does not attach. OPC recognizes that this is a case of first impression which the Commission has never addressed. As reason for the reduction of previously awarded prior rate case expense, OPC argued that evidence at the hearing showed that WMSI initially failed to pay its attorneys and consultants and that, even if WMSI is currently paying through installment plans, OPC is concerned that the Utility will cease to make future payments on the amount owed. WMSI argued that the evidence adduced at the hearing is that WMSI is paying its rate case expense and that there is no requirement that the rate case expense be paid in full immediately or within the 4 year amortization period.

OPC presented no competent substantial evidence to allow this form of extraordinary relief. OPC stated that it is "concerned" that the Utility will fail to pay its consultant fees in the future. The evidence in the record showed that for a time, while a fee dispute was pending, the Utility did not pay its prior law firm, and that the Utility had not paid consultants in full after the case. The evidence on record also showed that the Utility has continued to make payments to its attorneys and consultants on a monthly basis. WMSI is correct in its assertion that there is no requirement that the Utility pay its consultants in full immediately at the conclusion of a rate case. Fee disputes, for which there is no proof in this case, are outside the purview of the Commission as they would involve contractual agreements between private parties. Deltona Corp. v. Mayo, 342 So.2d 510, 512 (Fla. 1977).

The removal of the unpaid legal fees from rates set by Order No. PSC-11-0010-SC-WU, the final order issued in the now-closed rate case, raises the applicability of the doctrine of administrative finality. This doctrine provides that there must be a "terminal point in every proceeding both administrative and judicial, at which the parties and the public may rely on a decision as being final and dispositive of the rights and issues involved therein." Austin Tupler

Trucking, Inc. v. Hawkins, 377 So. 2d 679, 681 (Fla. 1979).<sup>17</sup> In Peoples Gas System v Mason, 187 So. 2d. 335, 339 (Fla. 1966), the Court cautioned against a too doctrinaire approach to the application of administrative finality and recognized exceptions to the doctrine. The Court held that a decision, once final, may only be modified if there is a significant change in circumstances or if modification is required in the public interest. This Commission, citing Peoples Gas System v. Mason stated that finality will not apply where it is shown that some mistake, misrepresentation, or fraud, or a matter of great public interest compels its review.<sup>18</sup> In this case, there is no competent, substantial evidence showing any of those circumstances to exist or that the issue is a matter of great public interest.

### Staff Analysis

Staff does not believe that it is necessary or appropriate to take any of the actions suggested by OPC at this time. In the prior rate case, the Commission authorized \$229,180 in rate case expense by Order No. PSC-11-0010-SC-WU, issued January 3, 2011. That amount of rate case expense was determined to be reasonable and for purposes of setting customer rates was amortized over a four-year period, or \$57,295 per year. It appears from the record here that WMSI is making payments to its consultants with outstanding balances stemming from the last rate case. Witness Brown testified that he is paying \$4,500 a month, with \$2,000 being paid to RTYC, \$2,000 to M & R Consultants, Inc. (Frank Seidman), and \$500 to PBSJ. These payments, along with Commission-approved prior rate case expense, estimated balances, and the approximate number of months to payoff, are summarized in Table 6-1, below.

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<sup>17</sup> See also: Reedy Creek Utils. Co. v. Florida Pub. Serv. Comm'n, 418 So. 2d 249 (Fla. 1982); Fla. Power Corp. v. Garcia, 780 So. 2d 34 (Fla. 2001); McCaw Communications of Florida, Inc. v. Clark, 679 So. 2d 1177, 1179 (Fla. 1996); Fla. Power & Light Co. v. Beard, 626 So. 2d 660 (Fla. 1993).

<sup>18</sup> See Order No. PSC-07-0816-FOF-EI, issued October 10, 2007, in Docket No. 060658-EI, In re: Petition on behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to refund customers \$143 million.



Table 6-1

Prior Rate Case Expense Summary					
<u>Consultant</u>	Prior Commission-Approved Rate Case Expense	Est. Prior Commission-Approved Rate Case Expense, As of 10/10/12*	Est. Prior Commission-Approved Rate Case Expense, As of 3/31/13 <sup>19</sup>	WMSI's Monthly Payments on Prior Rate Case Expense**	Approximate Months to Payoff***
RTYC	\$150,423	\$120,423	\$110,423	\$2,000	56
M & R Consultants, Inc. – Seidman	65,428	34,921 <sup>20</sup>	24,921	2,000	13
PBSJ	2,879	1,379 <sup>21</sup>	0	500	--
Barbara Withers	2,700	0	0	--	--
Other	<u>7,750</u>	<u>0</u>	<u>0</u>	--	--
Total	<u>\$229,180</u>	<u>\$156,723</u>	<u>\$135,344</u>	<u>\$4,500</u>	--

\*TR 234; EXH 65, BSP 211

\*\*TR 333; EXH 75, BSP 488-89

\*\*\*Using the estimated balances as of March 31, 2013.

OPC expressed concern that although WMSI's ratepayers are paying for the Utility's prior rate case expense in their current rates, there is no subsequent written agreement or guarantee that WMSI will continue making payments to RTYC after this contested proceeding concludes. (TR 237-239, 283; EXH 54; EXH 15, BSP 100-101). Staff acknowledges that while there may have been some delay in payment between WMSI and its consultants in regard to prior rate case expense, it appears that the Utility is making regular payments and there is testimony in the record indicating it will continue to do so going forward. (TR 333, 430-31, 449) As supported by the record, staff believes that witness Brown has made a commitment to paying these expenses off in a timely manner.

WMSI witness Brown asked rhetorically in his testimony that if a \$2,000 per month payment was acceptable to RTYC and WMSI, why would it not be acceptable to OPC. (TR 332, 430) Likewise, staff asks that if the payments referenced in Table 6-1 are reasonable, acceptable, and agreed to between the consultants and the Utility, why should the Commission attempt to negotiate or interject a different payment amount or timeline? Additionally, as witness Brown stated, and OPC witness Vandiver acknowledged in cross examination at the hearing, there is no Commission requirement that rate case expense be paid off during the four-year amortization period. (TR 258, 333) There are still almost two years remaining of the four-year amortization period and WMSI is making payments. Staff believes that any action at this time is premature.

<sup>19</sup> Using the payment information contained in the record, staff calculated an estimated unpaid rate case expense balance as of March 31, 2013.

<sup>20</sup> This amount differs from the amount discussed in another section of the Utility's response to OPC's First Set of Interrogatories (Nos. 1-16). A Utility response indicated that the estimated remaining amount for M & R Consultants, Inc. to be \$20,154 (\$65,428 - \$45,274), while an exhibit attached to the response showing rate case expense payments reflected the amount referenced in Table 6-1. Staff used the amount supported by the exhibit, which showed payments through October 10, 2012. (EXH 65, BSP 208, 211)

<sup>21</sup> Last payment due to PBSJ in 2013. Given the balance on October 10, 2012, and the payment, staff anticipates that by the time this recommendation is filed, PBSJ will be paid in full. (EXH 65, BSP 209)

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Furthermore, in the event that the Utility stops making payments or defaults on the obligations outlined above, staff believes that the matter would be better suited for a court of competent jurisdiction as the Commission has no equitable powers.<sup>22</sup>

### Conclusion

Accordingly, staff recommends no adjustment be made to rate case expense previously authorized by Order No. PSC-11-0010-SC-WU.

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<sup>22</sup> See Order No. PSC-05-0975-FOF-TP, issued October 11, 2005, in Docket No. 040130-TP, In re: Joint petition by NewSouth Communications Corp., NuVox Communications, Inc., and Xspedius Communications, LLC, on behalf of its operating subsidiaries Xspedius Management Co. Switched Services, LLC and Xspedius Management Co. of Jacksonville, LLC, for arbitration of certain issues arising in negotiation of interconnection agreement with BellSouth Telecommunications, Inc., p. 15.

**Issue 7:** What is the appropriate amount of additional rate case expense associated with the protest of Order No. PSC-12-0435-PAA-WU?

**Recommendation:** The appropriate amount of rate case expense associated with the protest is \$108,271. This expense should be recovered over four years for an annual expense of \$27,068. After adding the rate case expense approved in Order No. PSC-12-0435-PAA-WU, total annual rate case expense would be \$58,197 associated with this rate case. (T. Brown, Fletcher, Barrera).

### **Position of the Parties**

**WMSI:** Based upon actual and estimated rate case expense, WMSI should recover \$136,565 in rate case expense.

**OPC:** The Commission has discretion to remove all unreasonable and unsupported rate case expense. As recommended by OPC witness Vandiver, the remainder of rate case expense should be apportioned equally between the 12 issues. This methodology is reasonable and consistent with the lodestar method used by the Commission in Order No. PSC-94-0738-FOF-WU, issued June 15, 1994. As a matter of good regulatory policy, a utility should not be allowed carte blanche to cross protest a PAA order and raise new and costly issues simply because another party protested the PAA order. For any rate case expense approved, the Commission has the discretion to require quarterly reports during the amortization period showing that rate case expense payments are being made.

### **Staff Analysis:**

#### **Parties' Arguments**

WMSI argued that but for OPC's protest, none of the Utility's incremental rate case expense would have been necessary. (WMSI BR 9, TR 333) According to the Utility, OPC's main complaints center around the use of two witnesses, duplicative testimony, and several motions and notices. (WMSI BR 9) In addition, the Utility stated that OPC's recommendation to file monthly reports to monitor the payment of rate case expense are unnecessary since there is no requirement to pay rate case expense immediately. (WMSI BR 12) The Utility asserted that it filed under the PAA procedures in an effort to minimize rate case expense. The Utility noted that even though it did not receive the desired revenue requirement in the PAA Order, the expense associated with an evidentiary hearing did not justify it moving forward with a protest. The Utility contended it was hard to understand OPC's argument that WMSI's rate case expense is excessive, when OPC chose to initiate the hearing process. (WMSI BR 9)

WMSI witness Allen testified that the appropriate amount of rate case expense for the formal administrative proceeding is \$105,362, representing the expenses that have and will be incurred due to the protest filed by OPC. (TR 61) The Utility's post-hearing brief stated that WMSI should recover \$136,565. (WMSI BR 9) According to the witness, the rate case expense for legal expenses, consulting expenses, and related filing and notice expenses are reasonable and necessary. (TR 61) Likewise, WMSI witness Guastella does not agree with OPC's recommendations regarding rate case expenses. Witness Guastella testified that rate case expenses are an unavoidable cost of providing service and failure to allow such costs would be

contrary to the legal guidepost decision of the Supreme Court, Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591. (TR 49) According to witness Guastella, WMSI has incurred rate case expense for "issues" that did not require a formal proceeding. Witness Guastella stated that given these circumstances, disallowing these expenses would be particularly unreasonable. (TR 50)

WMSI witness Brown asserted that this should have been a fairly routine rate case, but because of OPC's actions, the Utility had to hire expert representation. (TR 333) In regard to the various arguments surrounding rate case expense, witness Brown contended that OPC's lawyers are paid without fail and their experts are paid by the state with no review by this Commission. According to witness Brown, WMSI's lawyers and experts deserve to be paid on the same basis, especially since this protested proceeding was brought by OPC. (TR 333-334)

OPC witness Vandiver argued that the Commission has the discretion to remove all rate case expense that is unreasonable or unsupported. (TR 241) OPC contended that the remainder of rate case expense should be apportioned between the issues, consistent with the lodestar method used by the Commission in Order No. PSC-04-0738-FOF-TP, issued June 15, 1994. (OPC BR 20-21; TR 247-250) OPC went on to state that a utility should not be allowed to cross-protest issues, raising new and costly issues, simply because another party protested the PAA Order. In its post-hearing brief, OPC asserted that it protested four issues and the Utility cross-protested eight issues, six of which total less than three percent of the revenue requirement included in the PAA Order. (OPC BR 18; TR 241, 247) Allowable rate case expense should only include expenses that directly relate to protested issues or areas. If it relates to non-protested issues, it should be disallowed and borne by the Utility as a cost of doing business. (OPC BR 19, 24)

Further, OPC argued that adjustments should be made to postage, FedEx/copies, and expenses related to the St. George Inn for lack of support. (OPC BR 21) According to OPC, rate case expense for Leonard & Withers, CPA should also be disallowed for being unreasonable and not adequately supported. (OPC BR 21-22) Similarly, OPC suggested that witness Guastella's rate case expense was also unreasonably incurred and duplicative of other testimony. (OPC BR 22) OPC also alleged that WMSI witness Allen's post-PAA rate case expense may not be adequately supported and suggested that at least 10 percent be disallowed for lack of detailed support. (OPC BR 22) In regard to WMSI's legal fees, OPC claimed that there is no justification for the firm's hourly rate increase from \$340 to \$350 an hour. (OPC BR 23) Additionally, OPC argued that additional adjustments to WMSI's legal costs should be made to remove costs associated with three motions that were subsequently denied, objections to OPC discovery, responses to OPC's motions to compel, expenses associated with non-protested issues, and a motion for temporary protective order. (OPC BR 23)

### Legal Analysis

OPC requests that additional rate case expense associated with this protest be reduced to disallow the Utility's filing of a cross-protest and several motions. OPC argued that the costs were unreasonable and imprudently incurred. As grounds for its request, OPC first argued that the Utility should not have raised new issues in its cross-protest. Under Rule 25-22.029(3), F.A.C., any person substantially affected by the proposed agency action may file a cross protest.

There is no prohibition in the rule against raising additional issues in the cross-protest. The Utility was substantially affected by the PAA Order issued in this case. Thus, the Utility is entitled to raise issues it deems should be protested, given that opportunity was presented by OPC filing its initial PAA protest.

OPC further argued that the Utility should not recover rate case expense incurred by the filing of motions that were denied partially or in toto. In support, OPC cited Order No. PSC-94-0738-FOF-WU<sup>23</sup> wherein the Commission denied a portion of rate case expense for issues raised on appeal in which the Utility did not prevail. However, the case can be distinguished from the instant case on the basis that the matter did not involve a protest. The matter involved an appeal and, as policy, the Commission specifically stated: "if the Commission took the position that any appeal taken by a utility is inherently reasonable, then utilities would be encouraged to appeal all orders as a matter of course to the ultimate detriment of the ratepayers who would be paying the bill for their lack of discrimination as to issues that truly should be appealed." There are no Commission orders denying rate case expense for motions in which a Utility does not prevail or partly prevails.

Last, OPC argued that the Commission should disallow legal rate case expense for what it terms as the excessive use of block billing. In support, OPC argued that the use of block billing prevents review of the adequacy of the expense as it does not contain sufficient detail. A review of the WMSI's invoices reveals that the billing is no different than the manner of billing in other rate cases before the Commission. Staff has been able to review the billing and made the appropriate adjustments.

#### Staff Analysis

In total, OPC proposed the removal of \$37,587 from rate case expense as unsupported or unreasonable, leaving \$98,978 to be apportioned among the 12 contested issues. (OPC BR 24-25) In its post-hearing brief, OPC recommended total rate case expense of \$88,691, a reduction of \$47,875 from the amount requested by WMSI.

As part of WMSI witness Allen's direct testimony, the Utility included an estimate of \$105,362 for current rate case expense. (EXH 9) Staff later requested an update of the actual rate case expense incurred for the protest, with supporting documentation, as well as the estimated amount to complete the case. On January 14, 2013, the Utility submitted updated actual costs and revised estimated rate case expense through completion of the protest period of \$136,565. (EXH 61) Based on information submitted by the Utility, staff calculated the actual and estimate to complete at \$133,059. (EXH 61; 71) Staff has used its calculated actual and estimate to complete expenses for purposes of this issue.

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<sup>23</sup> See Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, in Docket No. 900386-WU, In re: Application for a rate increase in Marion County by Sunshine Utilities of Central Florida, Inc.

Table 7-1

Description	WMSI Estimated	Actual as of Jan. 14, 2013	Additional Estimated	Total
Sundstrom, Friedman & Fumero, LLP	\$71,422	\$48,173	\$45,750	\$93,923
Law, Reed, Crona & Munroe, P.A.	11,470	8,029	7,881	15,910 <sup>24</sup>
Leonard & Withers, CPAs, PL	0	3,036	0	3,036
Guastella Associates, LLC	18,970	16,090	0	16,090 <sup>25</sup>
Postage	1,500	600	0	600
FedEx/Copies	2,000	88	2,412	2,500
St. George Inn	0	0	1,000	1,000
Total Rate Case Expense	\$105,362	\$76,016	\$57,043	\$133,059 <sup>26</sup>

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 post-PAA rate case. Based on its review, staff believes that several adjustments are necessary to the Utility's rate case expense estimate.

#### Sundstrom, Friedman & Fumero, LLP (SFF)

The first adjustment relates to the Utility's actual legal fees and its estimated legal fees to complete the case. WMSI requested total legal fees for SFF of \$93,923, which was comprised of \$48,173 in actual costs and \$45,750 in estimated fees to complete the rate case. (EXH 61) After reviewing the supporting documentation, staff noticed the rate charged per hour increased from \$340 to \$350 at some point during the protest. (EXH 9, 61, 71) The Utility provided no support for the hourly increase. As such, staff agrees with OPC's position that there was no justification for the firm's hourly rate increase or why the increase should be considered reasonable and included in rate case expense. (OPC BR 23) Moreover, the Commission used a \$340 hourly rate in the PAA Order, and absent additional information, the same rate should be applied here. Accordingly, staff's recommended rate case expense used an hourly rate of \$340 in all legal expense calculations.

In regard to actual fees and costs, SFF provided documents indicating billed and unbilled fees of \$46,222, and unbilled costs (i.e., FedEx, travel expenses, photocopies) of \$1,951, totaling \$48,173. (EXH 61) In its post-hearing brief, OPC recommended reducing the rate case expense associated with SFF's actual fees and costs to \$33,456. After reviewing the supporting

<sup>24</sup> This amount differs from what the Utility calculated in its actual and estimate to complete for Law, Reed, Crona & Munroe, P.A., which was \$16,817. The difference between the Utility's calculation and staff's calculation is approximately \$907 (\$16,817 - \$15,910).

<sup>25</sup> This amount differs from what the Utility calculated in its actual and estimate to complete for Guastella Associates, LLC, which was \$18,690. The difference between the Utility's calculation and staff's calculation is approximately \$2,600 (\$18,690 - \$16,090).

<sup>26</sup> As noted above, the total differs from what the Utility calculated in its actual and estimate to complete by \$3,507 (\$907 + \$2,600).

documentation, staff believes several adjustments should be made to SFF's 131.2 billed and unbilled hours. Staff believes adjustments are necessary to remove time associated with OPC's deposition of WMSI witness Mitchell, the withdrawal of previously filed testimony, and various escrow account requests. As such, staff recommends removing 3 hours for the deposition of witness Mitchell on November 6, 2012. Staff believes the reduction is warranted since the witness was instructed not to respond to many of the deposition questions posed by OPC. The deposition commenced at 2:05 p.m. and concluded at 3:32 p.m. that day, lasting approximately 1.5 hours. (EXH 24) Staff made an additional adjustment to remove time billed for conference time with witness Mitchell (and others) before and after the deposition. (EXH 61) Given the use of block billing, it was unclear from the support documentation exactly how much time should be removed. Absent other information, staff estimated 1.5 hours for the conference time before and after the deposition, and recommends removing that amount from rate case expense. Staff did not believe an additional adjustment for travel related hours or expenses was necessary, since SFF's billing statements indicated other activities, including another deposition, took place during that time frame. (EXH 61)

Staff also believes that an adjustment of 1 hour should be made for the withdrawal of previously filed testimony. While the Utility noted 3.7 hours for an entry that included "research and draft notice of withdrawal of pre-filed testimony," several other activities were also included. (EXH 61) It was unclear from the support documentation what the exact amount of time billed for the removal should be, so absent other information staff estimated a reasonable amount of time to be approximately 1 hour. Staff made additional adjustments for expenses related to the withdrawal of escrow funds. OPC supported the removal of costs associated with withdrawals from escrow since they did not specifically relate to protested portions of the PAA Order. (TR 245-246) WMSI stated that it was entitled to the rate case expense requested, while OPC estimated the total number of hours spent on non-protested issues to be 15.30 hours because of the extensive use of "block billing." (WMSI BR 9; OPC BR 24) Since neither party protested the PAA Order escrow account requirements, staff believes it is appropriate to remove approximately 8 hours based on the billing statements provided by SFF. (TR 245-46) Accordingly, staff recommends that SFF's billed and unbilled hours be reduced by 12 hours, or \$4,080 (12 hours x \$340).

In regard to estimated hours, SFF estimated a total of 122 hours would be necessary to complete the case. (EXH 61) As part of the estimate, SFF included 52 hours to prepare for the hearing, travel to and from St. George Island, and attend two days of hearing. (EXH 61) Staff notes that in an earlier estimate, 38 hours were contemplated for these tasks. (EXH 9) Staff believes that the 52 hour estimate seems excessive, particularly when no explanation or support for the increase in estimated hours was provided. Based on the hearing transcripts, the first day of the hearing began at 10:05 a.m. and ended at 6:37 p.m., which amounts to roughly 8.5 hours (including lunch). On the second day, the hearing lasted 3 hours, beginning at 9:30 a.m. and ending at 12:30 p.m. In total, the service and technical hearings took approximately 11.5 hours. As such, staff believes that the 38-hour estimate to complete the tasks referenced above is more reasonable, especially given the actual amount of time spent at the hearing. Accordingly, staff recommends that the estimated hours to complete should be reduced by 14 hours, or \$4,760 (14 hours x \$340). If the adjustment is approved, the total estimated hours to complete would be 108 hours.

Further, staff believes that adjustments to estimated costs should be made to photocopier costs and courier costs for insufficient support. In its post-hearing brief, OPC recommended reducing estimated copier costs by one-half and removing all of the estimated courier costs. (OPC BR 21) While staff agrees with the reduction related to the courier costs for lack of support, staff recommends a slightly smaller adjustment of \$150 (versus OPC's \$250) when it comes to estimated copier costs. Since the Utility's estimate was developed prior to the prehearing and hearing, staff believes that the additional \$100 amount appropriately covers any copier costs that would arise. Accordingly, staff recommends reducing estimated copier costs by \$150 and estimated courier expenses by \$100. Based on the above, staff recommends that SFF legal fees be reduced by \$10,492.<sup>27</sup>

Law, Reed, Crona & Munroe, P.A. (LRCM)

The second adjustment relates to the Utility's actual accounting consultant fees and its estimated accounting consultant fees to complete the case. WMSI requested total fees for LRCM of \$16,817. (EXH 61) After reviewing the supporting documentation, staff calculated the actual and estimated expense to be \$15,910, comprised of \$8,029 in actual costs and \$7,881 in estimated fees to complete the rate case. (EXH 61) As mentioned previously, staff used the corrected actual expenses for purposes of this issue.

In regard to the LRCM expense, OPC asserted that this expense may not be adequately supported. OPC also indicated that there may be no way to actually verify that the expenses were reasonably incurred. (OPC BR 22) Staff notes that LRCM provided a description of the actions to be performed, as well as the number of actual and estimated hours for each activity. (EXH 61) The summary provided here is similar to the information provided to support LRCM rate case expenses during the PAA phase.

Although not specifically referenced in each of the LRCM adjustments recommended below, staff believes an adjustment is required to account for the missed opportunities to provide insurance documentation to staff during the PAA process. Staff believes the documentation was available to the Utility and could have been produced in response to staff's data requests, in response to OPC's Issues and Concerns, or at the August 2, 2012 Commission Conference. (TR 84-90) Instead, the insurance documents were not made available to staff until the filing of WMSI witness Allen's direct testimony. (EXH 8) Had technical staff been provided with a complete and accurate record at the time of the PAA, Issue 8 would not have been necessary. Staff has taken this into account in its recommended adjustments to LRCM rate case expense below.

In its original rate case expense estimate, LRCM estimated 62 total hours to complete the case. In the Utility's updated filing, LRCM showed 86 actual and estimated hours. Staff noticed during its review of these documents that several work descriptions remained the same, but the hours required to complete the tasks increased. As a result, staff identified several variances that need to be addressed. The variances are laid out in Table 7-2, below:

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<sup>27</sup> This adjustment also removes the incremental \$10 per hour (\$350 - \$340) increase for legal costs.



Table 7-2

<u>Description</u>	<u>Filed w/Allen Direct Testimony</u> <sup>28</sup>	<u>Actual/Est. as of Jan. 14, 2013</u>	<u>Difference</u>
Meetings with utility, legal counsel, PSC, OPC regarding issues; preparation of prefiled direct testimony and exhibits	16 hours	20 hours	4 hours
Assist with comments for post-hearing brief and review Staff Recommendations and discussion with client	8 hours	12 hours	4 hours
Total	24 hours	30 hours	8 hours

(EXH 9, 61)

No additional information or explanation was provided to support the increase in hours for each of the particular tasks. As such, staff believes it appropriate to remove eight hours from LRCM rate case expense.

Staff believes that an additional adjustment should be made to the time associated with the first activity description to account for time related to the filing of WMSI witness Allen’s direct testimony. Staff notes that while direct testimony was filed for the protest on October 15, 2012, testimony had previously been filed as part of the PAA in November 2011. The PAA testimony was subsequently withdrawn on September 13, 2012. Witness Allen’s testimony in the PAA phase consisted of 41 pages, including exhibits. In the protest, her direct testimony consisted of 68 pages, including exhibits. After reviewing both, staff believes that a portion of the time requested for preparing direct testimony and exhibits here should be reduced, especially since portions of the testimony and exhibits had been prepared and included as part of the November 2011 testimony. Staff believes that the expense associated with the preparation of the 2011 testimony and exhibits was included in the PAA-ordered rate case expense, which was not protested. As such, staff recommends that an additional 4 hours be removed to avoid the potential recovery of these expenses a second time. (TR 246)

Finally, staff notes that 16 hours were added to LRCM’s updated rate case expense related to assisting with discovery responses. (EXH 61) While staff has no doubt that witness Allen worked with the Utility on certain discovery responses, there is no information explaining which particular response were worked on or for how long. While WMSI has stated that it is entitled to the requested rate case expense, OPC argued that some or all of witness Allen’s rate case expense should be disallowed, and would support the Commission removing at least 10 percent of witness Allen’s post-PAA rate case expense. (WMSI BR 9; OPC BR 22) Absent sufficient detail or supporting documentation, staff recommends that an additional 4 hours be removed from LRCM rate case expense. Accordingly, staff recommends that accounting consultant fees be reduced by 16 hours, or \$2,960 (16 hours x \$185).

<sup>28</sup> Witness Allen’s direct testimony and exhibits were filed on October 15, 2012.

## Leonard &amp; Withers, CPAs, PL (Withers)

The third adjustment relates to the Utility's actual accounting consultant fees. WMSI requested total fees for Withers of \$3,036. (EXH 61; 71, BSP 377-378) OPC recommended in its post-hearing brief that the entire amount of rate case expense for Withers be disallowed as unreasonable and not adequately supported. (OPC BR 21, 22) In support of its position, OPC asserted that Withers did not participate in the hearing or provide testimony, and the expense was not necessary. (OPC BR 22) Staff does not agree with OPC's position that all of the Withers expense should be removed since the Utility produced an invoice from Withers which provided an overall description of the services performed and detailed time records.

After reviewing the supporting documentation, staff does believe an adjustment is necessary to remove duplicative expense. According to the information contained in the record and presented in Table 7-3 below, Ms. Withers accumulated 11.24 hours and Mr. Leonard (Leonard) 9.24 hours while working on the same tasks. The only task Leonard did not also participate in was the preparation of the letter to WMSI on December 17, 2012.

Table 7-3

Leonard & Withers, CPAs Detailed Time Records			
Date	Hours - Withers	Hours - Leonard	Description
11/29/2012	1.65	1.65	Meet with WMSI and discuss issues
12/11/2012	1.35	1.20	Read PSC & OPC testimony
12/14/2012	3.50	3.02	Read rebuttal testimony Schultz, Dobiac, Brown
12/15/2012	1.00	1.00	Download cash flow statements and review
12/15/2012	2.50	2.37	Prepare testimony points and review with Mr. Brown
12/17/2012	1.00		Prepare letter for WMSI regarding L&W points
Total	11.00	9.24	

(EXH 71, BSP 378)

While satisfied with the description offered for the hours, staff does not believe it is necessary to have a second CPA performing the same exact functions as another, especially in this relatively limited proceeding. Moreover, the Utility did not provide additional support documentation or an explanation related to the necessity of these duplicative expenses. As such, staff believes that the expense related to Leonard's hours be removed. Accordingly, staff recommends that the Withers consultant fees be reduced by 9.24 hours, or \$1,386 (9.24 hours x \$150).

## Guastella Associates, LLC (Guastella)

The fourth adjustment relates to the Utility's actual expert witness fees. WMSI requested total fees for Guastella of \$18,690. (EXH 61) After reviewing the supporting documentation, staff calculated the actual and estimated expense to be \$16,090. (EXH 71, BSP 374-376) As mentioned previously, staff used the actual expenses incurred for purposes of this issue. OPC argued that Guastella's rate case expenses were unreasonably incurred since they were duplicative and designed to bolster other testimony. (OPC BR 22) OPC also suggested that it is

unreasonable for WMSI's customers to incur additional rate case expense for a witness testifying on the same issues as another witness. (OPC BR 22)

WMSI countered, alleging that the complaint about duplicative testimony is "without factual support." (WMSI BR 9) The Utility went on to argue that because witness Allen prepared the rate case MFRs, it was natural for her to testify, just as it was for witness Guastella to testify on cash advances and other issues. (WMSI BR 9; TR 335) According to WMSI's post-hearing brief, witness Allen generally addressed the issues which the Utility cross-protested and the common issue of service availability charges, while witness Guastella addressed cash advances and the salary reduction issue. WMSI added that the division of testimony described above is similar to that of OPC. (WMSI BR 10) However, staff believes that adjustments to the expense are still required as discussed below.

The Utility provided four invoices/billing statements that staff used to examine Guastella rate case expense, dated: October 15, November 15, December 7, and December 31, 2012. (EXH 71, BSP 373-376) The statement dated October 15, 2012, contained \$4,690 (14 hours x \$335) for Principal 1 and \$200 (4 hours x \$50) for Administrative,<sup>29</sup> for a total of \$4,890 (\$4,690 + \$200). (EXH 71, BSP 373) The invoice contained the following description which was applicable to all charges:

Consulting services in connection with PSC Docket No. 110200-WU OPC Protest. Examine Commission Orders, protest and response, WMSI analyses and Annual Reports to PSC. Prepare direct testimony and review testimony of other WMSI witnesses. Related discussions with WMSI and attorney.

(EXH 71, BSP 373)

The November 15, 2012, statement did not add any new charges, addressing only the previous balance. (EXH 71, BSP 374) The December 7, 2012, invoice included additional charges of \$13 (0.25 hours x \$50) for Administrative only. Finally, the December 31, 2012, invoice added \$10,888 (\$335/hr. x 32.5 hours) for Principal 1 and \$300 (6 hours x \$50) for Administrative, for a total of \$11,188 (\$10,888 + \$300) in new charges. (EXH 71, BSP 376) The invoice contained the following description which was applicable to all charges:

Prepare responses to IROG's (Staff's 3<sup>rd</sup> set and OPC's 5<sup>th</sup> set); review working capital calculation and issue; review testimony of PSC Staff and OPC witnesses; review drafts and final of G.B. rebuttal testimony; prepare drafts and final JFG rebuttal testimony; review drafts and final of J. Allen testimony; related correspondence and telephone discussion.

(EXH 71, BSP 376)

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<sup>29</sup> Both "Administrative" and "Administration" are used in Guastella Associates, LLC's invoices/billing statements. Staff uses "Administrative" for purposes of this recommendation.

Based on the information available, staff believes that adjustments are necessary to the time and corresponding expense for both Principal 1 and Administrative due to the lack of detailed support. A total of 46.5 hours were billed for Principal 1, and 10.25 hours for Administrative, but there was no detailed accounting of the time spent by each on the particular tasks described above. While the lack of detail makes it more difficult to review the expense for reasonableness, staff realizes that some portion of the requested expense is justified, especially since testimony was filed and other services were rendered. As part of the evaluation of the expense, it is also important to keep in mind that witness Guastella's direct and rebuttal testimony totaled only 16 pages combined. (OPC BR 22)

Staff's adjustments for Principal 1 focus on the December 31, 2012, invoice. As noted on the invoice, much of the work related to the review of other witness testimony and the preparation of witness Guastella's rebuttal testimony. (EXH 71, BSP 376) However, given the lack of detailed support, it is difficult to determine how much time was spent on each task. For this particular invoice, staff believes that 14 hours is a reasonable amount of time to complete the type of work performed, especially when compared to the October 15, 2012, invoice. Staff recommends Guastella's fees be reduced by 18.5 hours (32.5 hours - 14 hours) for Principal 1, or \$6,198 (18.5 hours x \$335). In regard to Administrative costs, staff believes that an adjustment is necessary given the lack of detailed support. OPC witness Vandiver recommended "the Commission continue its detailed review and disallow any post-PAA protest costs that the Utility fails to document consistent with past Commission precedent." (TR 242-243) As such, staff believes that 5.125 hours is a reasonable amount of time to complete the administrative portion of the tasks in regard to Administrative costs. This represents one-half of the Administrative time submitted. As such, staff recommends a reduction of 5.125 hours (10.25 hours - 5.125 hours) for Administrative, or \$256 (5.125 hours x \$50). Accordingly, the recommended total adjustment reduces Guastella expense by \$6,454 (\$6,198 + \$256).

#### Postage

The fifth adjustment relates to the Utility's expenses for postage. The Utility included \$1,500 in its initial rate case expense estimates and later reduced the amount to \$600. Staff notes that there was no supporting documentation included in the Utility's updated rate case expense filing. (EXH 61) However, a partial Pitney Bowes statement showing three postage meter refills for \$600 each, was included in another filing. (EXH 71, BSP 379) Unfortunately, no additional support or explanation was provided by the Utility to help justify the reasonableness of the expense. As a result, staff was unable to determine whether the postage expense was related to the protest or if it was part of the Utility's normal day-to-day operations. Absent any additional support and consistent with Commission practice, staff recommends that this expense be disallowed. Accordingly, staff recommends the removal of all \$600 requested postage expense.

#### FedEx/Copies

The sixth adjustment relates to the Utility's FedEx/copy expenses. The Utility included \$2,000 in its initial rate case expense estimates and later increased the amount to \$2,500. There was no supporting documentation included in the Utility's updated rate case expense filing. (EXH 61) However, the Utility provided two FedEx invoices, one for \$46 and another for \$42 in

a discovery response. (EXH 71, BSP 380-381) The first shipment was sent from WMSI to its attorney and the other from WMSI to witness Guastella. Both shipments took place during the protest phase. (EXH 71, BSP 380-381) As such staff, believes that \$88 (\$46 + \$42) of FedEx expense should be allowed.

In the same discovery response, the Utility provided several Office Depot order confirmations that showed a variety of office products, including copy paper and a toner cartridge. (EXH 71, BSP 382-384, 387-388) The Utility also provided the corresponding American Express statements and proof of payments in support. (EXH 71, BSP 385-386, 389-390) No additional support or explanation was provided by the Utility to justify the reasonableness of the copy expense. Even with the documentation provided by the Utility, staff was unable to determine whether the copy expense was related to the protest or if it was part of the Utility's normal day-to-day operations. Absent any additional support or explanation, staff recommends that the remaining FedEx/copy expense be disallowed. Accordingly, staff recommends the removal of \$2,412 (\$2,500 - \$88) of FedEx/copy expense.

#### St. George Inn

The final adjustment relates to the Utility's lodging expenses at the St. George Inn. The Utility included \$1,000 in expenses for the St. George Inn in its updated rate case expense, but provided no additional explanation or support. Staff understands that this lodging expense was probably for WMSI witnesses Brown and Allen related to the technical hearing held in mid-January and that no invoices would have been available when the Utility filed its updated rate case expense on January 14, 2013. (EXH 61) However, staff would still expect the Utility to provide some level of documentation in regard to this expense. At a minimum, reservation confirmations from the hotel showing the room rate and expected check-in and check-out dates. However, staff was able to determine a reasonable amount for lodging expense as the Commission has done on previous occasions.<sup>30</sup> The room rate at the St. George Inn is approximately \$129 per night. As such, staff recommends that \$516 (\$129 x 4 nights) is a reasonable amount for lodging expense. Accordingly, staff recommends the removal of \$484 (\$1,000 - \$516) of lodging expense.

#### Quarterly Reporting

OPC also suggested that the Commission require WMSI to make quarterly reports showing that payments are being made to vendors from the rate case expenses collected from its customers. (OPC BR 25) Staff does not believe that level or type of action is necessary at this point. The record reflects that WMSI's vendors are being paid, and the Utility has stated that it is committed to paying all rate case expense. (TR 438-439) As such, staff believes that additional reports are unnecessary.

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<sup>30</sup> Order Nos. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company, p. 12; PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 26.

Conclusion

It is the Utility's burden to justify its requested costs.<sup>31</sup> 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.<sup>32</sup> In summary, staff recommends that WMSI's revised rate case expense be decreased by \$27,068. The appropriate total rate case expense should be \$108,271. The breakdown of rate case expense is as follows:

Table 7-4

<u>Description</u>	<u>WMSI Estimated</u>	<u>Utility Revised Actual &amp; Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Sundstrom, Friedman & Fumero, LLP	\$71,422	\$93,923	(\$10,492)	\$83,431
Law, Reed, Crona & Munroe, P.A.	11,470	15,910	(2,960)	12,950
Leonard & Withers, CPAs, PL	0	3,036	(1,386)	1,650
Guastella Associates, LLC	18,970	16,090	(6,454)	9,636
Postage	1,500	600	(600)	0
FedEx/Copies	2,000	2,500	(2,412)	88
St. George Inn	0	1,000	(484)	516
Total Rate Case Expense	<u>\$105,362</u>	<u>\$133,059</u>	<u>(\$24,788)</u>	<u>\$108,271</u>
Annual Amortization	<u>\$26,341</u>	<u>\$33,265</u>	<u>(\$6,197)</u>	<u>\$27,068</u>

In its post-hearing brief, WMSI requested total rate case expense of \$136,565, which amortized over four years is \$34,141. As explained previously, staff believes the actual and estimate to complete to be \$133,059, which amortized over four years is \$33,265, and used these amounts for purposes of this issue. By operation of math, the sum of the identified components is less than the amount requested in WMSI's brief. Based on the adjustments recommended above, total rate case expense should be decreased by \$24,788 (\$133,059 - \$108,271), or \$6,197 (\$33,265 - \$27,068) per year.

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 WMSI and the recommended adjustments discussed above, staff recommends the appropriate amount of rate case expense is \$108,271 for the PAA protest portion of this case. This expenses should be recovered over four years for an annual expense of \$27,068. After adding the rate case expense previously approved in Order No. PSC-12-0435-PAA-WU, total annual rate case expense would be \$58,197.

<sup>31</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>32</sup> See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988).

**Issue 8:** Should any adjustments be made to miscellaneous expense?

**Recommendation:** Yes. Miscellaneous expense should be decreased by \$2,585, and plant increased by \$2,585. Accordingly, a corresponding adjustment should also be made to correct depreciation expense so that it reflects an increase of \$129. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** Yes. Miscellaneous expenses should be increased by \$6,735 over the PAA Order amount.

**OPC:** Yes. Miscellaneous expense requested in the MFRs should be reduced to \$72,698 as established by PAA Order No. PSC-12-0435-PAA-WU.

**Staff Analysis:** The Utility is requesting an adjustment to miscellaneous expense due to an alleged "double reduction" made in the Commission's PAA Order. In the PAA Order, the Commission decreased miscellaneous expense by \$9,320 and capitalized plant in the same amount. This amount was comprised of an adjustment of \$6,735 related to repairs for damage to a drive well and the remainder was related to meters. (TR 59) To correct the error, WMSI witness Allen testified that miscellaneous expense should be increased by \$8,754.<sup>33</sup> (TR 59-60) Witness Allen represented that WMSI received insurance proceeds in the amount of \$8,754 to defray the cost of repairs for damage to Drive Well #4 sustained in a lightning strike. The proceeds included the \$6,735 which was part of the PAA adjustment, as well as some additional expenses.

According to witness Allen, WMSI recorded a reduction to expenses by the amount of the insurance proceeds received. In support, the Utility provided documentation showing the insurance proceeds received as well as an excerpt of the Utility's general ledger showing the reduction to expenses of the same amount as the proceeds. (EXH 8, 92) Witness Allen asserted that the PSC's adjustment to reduce the expenses further is duplicative of the reduction already reflected in expenses by the Utility. (TR 60, 69) Witness Allen stated that if the credit remains as a reduction to expenses, it assumes going forward that the Utility will receive an insurance reimbursement on an annual basis and that is clearly not going to be the case. (TR 69; WMSI BR 13) OPC did not provide testimony specifically addressing this issue.

While agreeing that a correction to miscellaneous expenses is necessary, staff believes that the Utility missed numerous opportunities to provide the insurance documentation to staff during the PAA process. Staff believes the documentation could have been produced in response to staff's data requests, in response to OPC's Issues and Concerns, or at the August 2, 2012 Commission Conference. (TR 84-90) Instead, the insurance documents were not made available to staff until the filing of witness Allen's direct testimony in the protested portion of this case. (EXH 8) Had the Commission been provided with a complete and accurate record at the time of the PAA recommendation, this dispute over miscellaneous expenses would have been avoided.

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<sup>33</sup> In its post-hearing brief, the Utility suggested the Commission correct the oversight by increasing miscellaneous expense by \$6,735. (WMSI BR 13)

As a result, rate case expense could have been avoided in regard to this particular issue. Staff addresses current rate case expense and any potential adjustments in Issue 7.

As mentioned previously, the Commission decreased miscellaneous expense by \$9,320 and increased capitalized plant in the same amount in the PAA Order.<sup>34</sup> That amount was comprised of an adjustment of \$6,735 related to repairs for damage to a drive well and the remainder was related to meters. (TR 59) The meters, totaling \$2,585, were not an issue in this proceeding.

Staff acknowledges that while the insurance proceeds received for the lightning claim total \$8,754, only the portion directly attributable to the repair of the drive well (\$6,735) should be part of the adjustment contemplated here. Based on the record developed during this phase, staff believes that the Commission's adjustment to reduce miscellaneous expense during the PAA phase was duplicative of the reduction already reflected by the Utility. As such, staff believes that the \$6,735 of insurance proceeds traceable to the repair of the drive well should be removed from the adjustments made to miscellaneous expense and plant in the PAA Order. In doing so, the correct adjustments should be reflected as the portion attributable to the meters only, or \$2,585 (\$9,320 - \$6,735). Corresponding adjustments to correct depreciation expense and accumulated depreciation will also need to be made.

Miscellaneous expense should be decreased by \$2,585, and plant increased by \$2,585. Accordingly, a corresponding adjustment should also be made to correct depreciation expense so that it reflects an increase of \$129.

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<sup>34</sup> The Commission also made a corresponding adjustment of \$298 to depreciation.



**Issue 9:** How should the net gain on sale of land and other assets be treated?

**Recommendation:** The gain on sale of land and other assets of the Utility should be amortized over five years. The annual amortization is \$1,159. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** No further gain on sale adjustments to those made in the PAA Order are justified. The Commission in the last rate case should never have given the customers the benefit on the gain on sale of the Tallahassee lots that were never in rate base.

**OPC:** The Commission should reinstate and continue the amortization of the remaining balance of the \$242,000 net gain on sale land and other assets as determined by Order No. PSC-11-0010-SC-WU to be amortized to the benefit of the ratepayers. Reinstatement of the gain on sale amortization and combining the remaining balance with the gain on sale approved by the PAA Order would materially reduce customer rates. As shown in HWS-36, OPC calculates the remaining amount of this gain on sale to be amortized to be \$153,292.

**Staff Analysis:** According to WMSI witness Brown, this issue relates to two investment lots in Tallahassee that Brown Management Group bought from the Utility. Based on witness testimony, the two lots were erroneously included in the Utility's 2006 Annual Report and subsequently removed in 2007 when they were sold. (TR 347-348) Witness Brown testified that the two Commonwealth lots were never in rate base, the ratepayers never had any investment or involvement in the lots, and the lots should never have been included in the gain on sale calculation in the last case (TR 327, 347-348; EXH 75, BSP 492-495) The witness asserted that the lots' inclusion in the gain on sale calculation in the last rate case has already cost WMSI approximately \$100,000, and charging the Utility another \$153,292, as advocated by OPC, would only compound that mistake. (TR 348)

In its post-hearing brief, the Utility reiterated its argument that including the sale of the Tallahassee lots in the gain on sale was an error. According to WMSI, the gain on sale was not vetted at the hearing and instead, was addressed only through a late filed exhibit. Similarly, WMSI asserted that the Order did not contain any finding that the investment lots were ever included in rate base. According to the Utility, continuing to include assets that were never part of rate base goes against Commission policy and provides ratepayers with an unjust windfall. (WMSI BR 14-16)

OPC witness Schultz argued that the Commission's PAA Order, which recognized a net gain of \$5,794 to be amortized over five years resulting in an annual amortization of \$1,159, omitted the gain on sale adjustment from the last rate case. Witness Schultz acknowledged that in Order No. PSC-11-0010-SC-WU, the Commission made a determination that there was a gain on sale and ordered the amortization of \$242,040 over five years, for an annual amortization of \$48,408. (TR 157) According to the witness, the remaining amortization of the gain on sale recognized in the last order should be reflected in the rates approved by the Commission in this docket. Based on his calculations, approximately \$153,292 remains to be amortized from the previous rate case and it should be amortized over a three to four year period. (TR 157-158; EXH 46)

OPC argued in its brief that nothing in the cited orders contemplated resetting the gain on sale amortization within the five-year amortization period in a subsequent rate case. In an effort to balance the interests and expectations of the customers and a utility regarding the disposition of the amortization of a gain on sale, OPC suggested that when a utility subsequently files a new rate case within the five-year amortization period, the Commission should take the remaining balance of the previously approved gain on sale amortization, add it to any gain or loss on sale calculated in the subsequent rate case, and amortize that total amount over five years (or over any period of time which the Commission believes is in the best interest of the utility and its customers). According to OPC, these actions would ensure that customers receive the full benefit of the previously ordered gain on sale. (OPC BR 27)

Staff notes that there is no dispute that over the past five years, WMSI has sold assets that have resulted in both gains and losses. It is a long-standing Commission practice to amortize capital gains from the sale of specific assets over a period of five years to the benefit of the ratepayers.<sup>35</sup> OPC argues that the Final Order from the last rate case constitutes precedent which the Commission should follow. (OPC BR 26) Staff agrees, noting that the same methodology utilized to determine the gain on sale in the Final Order was used during the PAA portion of this rate case, as well as in its handling of the gain on sale in the instant docket. While OPC argues that the Commission's previous orders do not contemplate resetting the gain on sale amortization within the five-year amortization period in a subsequent rate case, the cited orders do not contemplate handling the unamortized gain on sale the way OPC has suggested either.

Staff believes that while the gain (or loss) on sale is amortized over a period of five years beginning with a Commission order in a rate case, it is equally important to examine the underlying transaction details that make up the gain on sale, especially the date of sale or disposition. OPC's primary concern centers on its disagreement with the Commission's methodology not to include in its calculation those assets that would otherwise be fully amortized within a year of when the rates would go into effect. Instead of looking at the consistency of the methodology used, OPC alleged that the Commission "inexplicably failed to address, reference, or distinguish the prior Final Order" and "failed to mention the fact the Commission ordered the \$242,040 gain on sale be amortized to the benefit of the customers." (OPC BR 26)

While this docket followed closely on the heels of the previous rate case, this was a new rate case, complete with a new test year and updated MFRs. In each rate case, staff attempts to create the most up-to-date and accurate record of a utility's operations. In doing so, it is not uncommon for staff to update calculations from a recent rate case as part of its evaluation of the new rate case when necessary. As a result, some items could fall out of the calculation while other transactions (taking place since the last rate case) could be added. Table 9-1 outlines

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<sup>35</sup> See Order Nos. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp; PSC-04-0947-PAA-SU, issued September 28, 2004, in Docket No. 040733-SU, In re: Disposition of gain on sale of land held for future use in Marion County by BFF Corp; PSC-02-1159-PAA-GU, issued August 23, 2002, in Docket No. 020521-GU, In re: Petition for approval to amortize gain on sale of property over five-year period by Florida Public Utilities Company; and PSC-98-0451-FOF-EI, issued March 30, 1998, in Docket No. 970537-EI, In re: 1997 depreciation study by Florida Public Utilities Company, Marianna Division.

staff's evaluation of WMSI's gain on sale. Several items included in the gain on sale in the Utility's last rate case are not included here, most notably the sale of the Commonwealth lots. At the same time, several transactions were added to the calculation here, that were not part of the calculation in the last rate case.

Table 9-1

WMSI Assets Sold (2005-2011)				
Date of Sale	Description	Five-year amort.	Included in gain on sale in Docket No. 100104-WU	Included in gain on sale in Docket No. 110200-WU
03/01/2005	Killearn Ct. Office Bldg.	03/01/2010	No, within 1 year of rates.	N/A, not included in prior calculation.
03/30/2006	Stonehenge Trailer	03/30/2011	No, within 1 year of rates.	N/A, not included in prior calculation.
06/22/2006	2002 Chevy Silverado GN Hitch and Tool Box included	06/22/2011	No, within 1 year of rates.	N/A, not included in prior calculation.
07/01/2006	Units 1 & 2 139 Gulf Beach Dr. (Apts.)*	07/01/2011	No, previously disallowed.	N/A, not included in prior calculation.
12/29/2006	Eastpoint Land, a portion of Lot 7, Bl. 1	12/29/2011	No, within 1 year of rates.	N/A, not included in prior calculation.
02/16/2007	2005 Dump Truck	02/16/2012	Yes	No, within 1 year of rates.
08/14/2007	2001 Truck	08/14/2012	Yes	No, within 1 year of rates.
11/02/2007	Lots 5 & 6 Commonwealth Office Park	11/02/2012	Yes	No, within 1 year of rates.
07/17/2008	2004 GMC Yukon	07/17/2013	Yes	No, within 1 year of rates.
06/04/2009	Easement	06/04/2014	Yes	Yes
07/14/2009	Easement	07/14/2014	Yes	Yes
12/31/2009	Backhoe Trailer	12/31/2014	Yes	Yes
03/10/2010	2008 GMC Truck	03/10/2015	N/A, after test year.	Yes
12/31/2010	2008 Chevy Tahoe	12/31/2015	N/A, after test year.	Yes
01/01/2011	2007 Chevy Tahoe	01/01/2016	N/A, after test year.	Yes
07/19/2011	200 Non-funct. meters	07/19/2016	N/A, after test year.	Yes

\* Staff did not include the sale of the space above the Utility's St. George Island office in Docket No. 100104-WU because it was disallowed in a previous rate case.

Based on Commission practice, staff believes the net capital gains (net of capital losses) on the sale of specific assets should be recognized and amortized over five years. As discussed previously, staff did not include in its calculation those assets that would otherwise be fully amortized within a year of when the rates would go into effect. The following transactions fall into this category and were not included in staff's calculation: (1) disposition of a 2005 dump truck on 2/16/2007; (2) disposition of a 2001 truck on 8/14/2007; (3) disposition of Commonwealth Office Park lots 5 & 6 on 11/1/2007; and, (4) disposition of a 2004 GMC Yukon on 7/17/2008. (EXH 73, BSP 469) Since the Commonwealth lots represent the majority of difference between the prior gain on sale calculation and the current calculation, additional discussion is warranted. The Commonwealth lots were sold on November 1, 2007, and the five-year amortization of any gain or loss associated with them would have been complete on November 1, 2012. While the Commonwealth lots referenced here were included in plant-in-service during 2006 and 2007, such inclusion is irrelevant to the gain on sale in the instant case. (EXH 75, BSP 494-495) As witness Brown noted, even if they had been in rate base, the

amortization period has expired. (TR 327-328) As such, staff believes nothing has been raised at hearing that would suggest a change from the decision reached in the PAA Order with respect to this issue.

Accordingly, staff has calculated a net gain of \$5,794. Staff recommends the net gain on sale of land and other specific assets of the Utility be amortized over five years, which results in an annual amortization of \$1,159. Staff's calculation of the amortization of the gain on sale and the resulting reduction in expenses is reflected in the following table.

Table 9-2

WMSI Gain/(Loss) on Sale				
Date	Description	Net Book Value	Proceeds/ Sale Price	Gain/(Loss)
06/04/09	Easement	\$0	\$4,000	\$4,000
07/14/09	Easement	\$0	\$500	\$500
12/31/09	Backhoe Trailer	\$4,006	\$10,000	\$5,994
03/10/10	2008 GMC Truck	\$21,713	\$22,612	\$899
12/31/10	2008 Chevy Tahoe	\$37,222	\$35,471	(\$1,751)
01/01/11	2007 Chevy Tahoe	\$17,741	\$13,393	(\$4,348)
07/19/11	200 Non-functioning Meters	\$0	\$500	\$500
Total Gain/(Loss) on Sales				<u>\$5,794</u>
Amortized Gain/(Loss)				<u>\$1,159</u>

**Issue 10:** Have the Utility's advances to WMSI's President and associated companies had any adverse impact on the Utility or its ratepayers, and if so, what action, if any, should the Commission take?

**Recommendation:** Yes, the Utility's advances to WMSI's President and associated companies have had an adverse impact on the Utility and its ratepayers. Consequently, the President's salary should be reduced. Furthermore, absent Commission authority to prohibit advances to the President and associated companies for non-utility purposes, the Commission should require WMSI to file quarterly reports delineating all advances, loans, investments, notes receivable, and accounts receivable between WMSI and the President and associated companies including the date, amount, and reason for the transaction(s). (Cicchetti, Maurey, Barrera)

**Position of the Parties**

**WMSI:** The Utility's advances to its President and associated companies have had no impact on rates charged to ratepayers, nor any adverse impact on the Utility. The customers pay no additional interest expense as a result of the re-amortization of the DEP loan to match the depreciation rate of the asset purchased. The Commission should continue to reject OPC's continued efforts to have this Commission micro-manage the Utility.

**OPC:** Yes. The Utility's advances to the WMSI President and his associated companies have adversely impacted the Utility and its ratepayers as demonstrated by the testimony and exhibits of OPC witness Schultz. If the advancing of utility money for non-utility purposes is not halted, it could harm the day-to-day operations of this utility and ultimately the customers if the Utility through unwise management decisions is unable to provide water service to the island. The Commission should implement the actions recommended by witness Schultz to protect the customers.

**Staff Analysis:**

**Commission's Authority to Order "Extraordinary Relief"**

OPC, in its post-hearing brief, stated that "[t]he legal question the Commission must also address is what powers, duties, and authority the Commission has, implied or express, to ensure that a public utility is operated in the public interest." As the legal question was not raised until OPC's post hearing brief, WMSI's brief did not provide legal argument concerning the Commission's authority to order extraordinary relief. WMSI's post hearing brief included arguments of the efficacy of the evidence presented at the hearing.

OPC seeks from the Commission a finding of managerial imprudence or "managerial negligence."<sup>36</sup> Upon such a finding, OPC argued that the Commission has a duty to undertake "proactive measures to ensure that this Utility is managed and operated in the best interests of the Utility and its customers." OPC argued that the Commission has authority to order what OPC

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<sup>36</sup> The term managerial negligence has not been used in Commission Orders and OPC has not defined what is meant by the term.

recognizes to be extraordinary relief pursuant to the provisions of Section 367.011(3), F.S., (public interest) and Section 367.121(1)(g), F.S., (the Commission has “authority to exercise all judicial powers, issue all writs and do all things necessary to implement and enforce the provisions of this chapter.”)

OPC seeks, in part, an order from the Commission: (1) implementing “strict managerial oversight of WMSI in order to provide assurances to current and future creditors that they will be timely repaid;” (2) requiring WMSI to discontinue advancing any additional Utility monies for non-utility purposes without express Commission approval and file regular reports and periodic audits of the books to ensure that this requirement is being met; (3) establishing a method whereby the Utility President and associated companies can start repaying the money previously advanced to them in order to restore the financial stability of the Utility, or, in the alternative, (4) imputing an interest component for the \$1.2 million advanced to the President and his companies; and ordering WMSI to transfer the assets of Brown Management Group to WMSI and use the income from those assets for Utility purposes. Finally, OPC seeks an order revoking the rate case expense awarded in the last WMSI rate case<sup>37</sup> as a sanction for the Utility failing to timely pay its experts and attorneys. (OPC BR 14)

### Legal Analysis

It is axiomatic that the Commission, as an administrative agency, is vested only with the express or implied statutory authority granted by statute. Dep't of Revenue ex rel. Smith v. Selles, 47 So. 3d 916, (Fla. 1<sup>st</sup> DCA 2010); City of Cape Coral v. GAC Utilities, Inc., 281 So. 2d 493 (Fla. 1973); Teleco Communs. Co. v. Clark, 695 So. 2d 304, 308 (Fla. 1997). Any reasonable doubt as to the lawful existence of a particular power of the Commission must be resolved against it. City of Cape Coral, at 495. Section 367.011(2), F.S., grants power to the Commission with respect to rates. Section 367.121, F.S., details the powers of the Commission with respect to the setting of fair and reasonable rates.

No provision in Chapter 367, F.S., grants the Commission all-encompassing implied or express authority to exercise powers that are expressly reserved to the courts. Florida Bridge Company v. Bevis, 363 So. 2d 799 (Fla. 1978), involved a Commission order directing Florida Bridge to freeze a reserve account which had been established for extraordinary maintenance, and to deposit \$ 35,788 each year into the account until it has accumulated a reserve of \$200,000. The Supreme Court, citing City of Cape Coral, found that the Commission exceeded its authority to “fix and regulate tolls, charges, uses and hours” and set aside the Commission’s order. As in Florida Bridge Company, OPC’s request for an order prohibiting WMSI “from advancing any additional Utility monies for non-utility purposes without express Commission approval” is a request for injunctive relief, a power reserved to the courts, and outside the Commission’s authority to regulate rates.<sup>38</sup>

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<sup>37</sup> See Order No. PSC-11-0010-SC-WU.

<sup>38</sup> See also: Sandpiper Homeowners Ass'n v. Lake Yale Corp., 667 So. 2d 921 (Fla. 5<sup>th</sup> DCA 1996) (although the Commission has exclusive jurisdiction to entertain actions involving utilities with regard to services and rates, the circuit court is vested with jurisdiction to hear matters outside of that realm, thus, the Commission has no power to adjudicate contract disputes or award money damages); Loxahatchee River Env'tl. Control Dist. v. Mann, 403 So. 2d 363 (Fla. 1981) (Commission does not have jurisdiction to grant a private utility authority to operate within the

Deltona Corp. v. Mayo, 342 So.2d 510 (Fla. 1977), and Aloha Utilities v Public Service Commission, 376 So. 2d 850 (Fla. 1978) are particularly instructive. In Deltona, the Commission denied an otherwise justified rate increase to a utility due to the Commission's finding that the Utility had violated the land sales law. The Supreme Court stated that "[i]f Deltona has engaged in an unfair business practice or committed fraud, ... it may be a concern of other state agencies or the basis for private law suits ... but it is not a matter of statutory concern to the Public Service Commission. That agency has no authority to vindicate breaches, if any, of the land sales laws or private contracts." Deltona, at 512. In Aloha, the Commission tried to sanction the Utility for its noncompliance with its regulations by denying an otherwise justified rate increase. The court stated: "[t]he Commission is not free to use its regulatory power to effect purposes not conferred on it by statute." Aloha, at 851. In the instant docket, OPC, arguing mismanagement by the Utility, seeks an order requiring the Utility President and associated companies to repay funds previously advanced to them; charging interest on \$1.2 million advanced to the President and his companies; and ordering WMSI to transfer and use the assets of an associated company for utility purposes. Under the holdings in Deltona and Aloha, such relief is not within the Commission's powers to award.

Additionally, OPC requested nearly the identical relief on nearly the identical issue in Docket 100104-WU, recommending that the Commission prohibit WMSI from making any additional investments or transfers of cash to associated companies without prior approval from the Commission, require WMSI to demand return or repayment of all advances and investments in associated companies, and, in the absence of the return of these advances, impute a return on these funds for purposes of offsetting any revenue deficiency claimed by the Utility in future rate proceedings. In Final Order No. PSC-11-0010-SC-WU, the Commission stated:

[O]ur primary actions when there is an indication of mismanagement and there is an indication that revenues are inappropriately or imprudently expended, we have three main remedies: (1) we can take the funds out of equity or reduce the return on equity; (2) we can reduce the amount allowed for the president's salary; or (3) we can and do in all cases make sure that any imprudent expenditures and associated costs do not increase the rates of the customers. Further, if it affects quality of service, we can require specific improvements. In this case, we have found that the quality of service provided by the Utility is satisfactory. Also, upon close review, the advances of funds to the Utility's associated companies do not appear to have negatively impacted the rates approved. Finally, we note that we have declined to micromanage business decisions of a Utility.<sup>39</sup> Based on all the above, we do not believe that the actions requested by OPC are appropriate.

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Loxahatchee River Environmental Control District without the district's consent); Ramos v. Fla. Power & Light Co., 21 So. 3d 91 (Fla. 3<sup>rd</sup> DCA 2009) (Commission has no authority to award compensatory damages).

<sup>38</sup> Tellingly, OPC, in the instant Docket, recently argued that the Commission lacked the power to issue an injunction against a non-regulated party. See Order No. PSC-13-0045-PCO-WU, issued January 24, 2013.

<sup>39</sup> See Order No. PSC-04-0712-PAA-WS, issued July 20, 2004, in Docket Nos. 020896-WS and 010503-WU, In re: Petition by customers of Aloha Utilities, Inc. for deletion of portion of territory in Seven Springs area in Pasco County, and In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.

Further, under normal circumstances, we believe prudency reviews in general rate cases provide ample protection to the customers.<sup>40</sup>

(Emphasis supplied)

In the PAA order being protested in this Docket, the Commission ordered the Utility to place funds in escrow to meet its obligations to repay loans obtained for purposes of building the water tank and for DEP.

OPC further requested that the Commission order WMSI to transfer the assets of Brown Management Group to WMSI and order that income from those assets remain in WMSI to be used for utility-purposes. As stated above, the Commission has ruled that it does not have express statutory authority to preclude a utility from making investments in associated companies.<sup>41</sup> As a corollary, the Commission does not have the statutory authority to require an associated company, in this case a subsidiary corporation, to transfer property owned by the subsidiary to its parent or to require a parent corporation to acquire the subsidiary's property. This remedy would be akin to piercing the "corporate veil," since the property of a parent's subsidiary is not considered property of the parent solely by virtue of the parent's ownership of the subsidiary. The Commission has no jurisdiction to disregard the legal existence of a corporation. Roberts' Fish Farm v. Spencer, 153 So. 2d 718, 721 (Fla. 1963).

Lastly, OPC argued that Exhibit 110 containing a selection of Commission orders show the Commission's prior "proactive" involvement with WMSI. The orders show that the Commission required WMSI and/or its predecessor, St. George Island Utility Company, Ltd., to either place funds in escrow or denied requests for withdrawals from escrow.<sup>42</sup> In Order No. 23258,<sup>43</sup> the Commission ordered WMSI to place funds in escrow for the purchase of a water tank. However, the Commission required that the water tank, being paid for by the customers, be titled in the utility's name before a withdrawal from escrow was approved. In Order No. PSC-93-0370-AS-WU,<sup>44</sup> the Commission, approved a stipulation, offered by St. George/WMSI, to have the utility hire a co-manager in settlement of an action to revoke the utility's certificate. These orders do nothing more than support the relief already ordered by the Commission in the PAA Order<sup>45</sup> being protested, and do not provide support for other relief sought by OPC.

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<sup>40</sup> OPC argues that cases cited by the Commission in the Final Order in Docket No. 100104-WU, including Florida Bridge Company; Department of Transportation v. Mayo, Department of Transportation v. Mayo, 354 So. 2d 359 (Fla. 1979); City of Cape Coral; and City of Miami v. Florida Public Service Commission, 208 So. 2d 249, 259 (Fla. 1968) (provision against retroactive ratemaking), can be distinguished. However, OPC does not state the factors that distinguish these cases from the instant case.

<sup>41</sup> See Order No. PSC-11-0010-SC-WU, pp. 50-56.

<sup>42</sup> See Order Nos. PSC-94-1383-FOF-WU, issued November 4, 1994, in Docket No. 940109-WU; Order No. 23174, Issued July 11, 1990, in Docket 871177-WU; and PSC-12-0641-PCO-WU, issued December 4, 2012, in Docket No. 110200-WU.

<sup>43</sup> See Order No. 23258, issued July 27, 1990, in Docket No. 871177-WU.

<sup>44</sup> See Order No. PSC-93-0370-AS-WU, issued March 9, 1993, in Docket 920782-WU.

<sup>45</sup> See Order No. PSC-12-0435-PAA-WU, issued August 22, 2012, in Docket No. 110200-WU.



### Staff Analysis

The facts and circumstances associated with this issue are essentially unchanged since the Commission ruled on this issue in Order No. PSC-12-0435-PAA-WU. This issue also was addressed in Docket No. 100104-WU, which concluded with Order No. PSC-11-0010-SC-WU. Order No. PSC-11-0010-SC-WU required staff to perform a cash flow audit of the utility and recommend an appropriate adjustment if it was determined the activity recorded in Account 123 impaired the Utility's ability to meet its financial and operating responsibilities.<sup>46</sup> Staff initiated a cash flow audit which was released July 29, 2011. Regarding Account 123, the staff cash flow audit concluded:

The net receivable of \$1,175,075 from Gene Brown and associated companies, as of December 31, 2010, represents funds that have been moved out of the Utility for either Gene Brown's personal use or one of the associated companies.<sup>47</sup> (EXH 56)

As reflected in the Utility's 2011 annual report, the amount in Account 123 increased to \$1,215,075 as of December 31, 2011 after correcting a previous \$40,000 accounting error.

After analyzing the cash flow audit, technical staff, in its recommendation in Docket No. 110200-WU dated July 20, 2012, recommended the Commission accept the Utility's proposal to escrow certain funds for debt service payments and, in addition, reduce the President's salary and pension and benefits expense by a total of \$44,441.<sup>48</sup> In Order No. PSC-12-0435-PAA-WU the Commission noted:

...the Utility's loan agreement with DEP has been amended on at least four occasions and that WMSI has not made some payments as originally scheduled. We note that during this period when scheduled payments were not made, cash was being advanced to the President and associated companies.<sup>49</sup>

In Order No. PSC-12-0435-PAA-WU, the Commission required WMSI to escrow 35.25 percent of all monthly revenues and reduced the President's salary and pension and benefits expense by a total of \$19,046.<sup>50</sup>

In addition to missing payments on the DEP loan, the Utility fell behind on its accounts payable, and had to request two regulatory assessment fee (RAF) payment plans. (OPC BR 8) WMSI defaulted on the DEP loan in 2012. When asked by staff, "In general, does defaulting on a loan increase or decrease a firm's credit risk?" witness Brown responded, "I would say it generally decreases your credit standing, if the credit bureaus and other people know about it through third parties normally." (EXH 75, BSP 553)

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<sup>46</sup> See Order No. PSC-11-0010-SC-WU, p. 56.

<sup>47</sup> See Document No. 05312-11, Auditor's Report, WMSI Cash Flow Audit in docket No. 100104-WU, Audit Control No. 11-007-1-2, dated July 29, 2011, p. 11.

<sup>48</sup> See staff recommendation dated July 20, 2012, pp. 35-38.

<sup>49</sup> See Order No. PSC-12-0435-PAA-WU, p. 27.

<sup>50</sup> See Order No. PSC-12-0435-PAA-WU, p. 28.

Major concerns for utilities in financial distress include safety and quality of service. As noted in the PAA Order, the Utility's water storage tank was described by the Utility and others as on the verge of catastrophic collapse.<sup>51</sup> Witness Brown verified that he had testified in May 2010 that, "...the ground storage tank is crumbling and we could have a catastrophic failure at any time." (EXH 75, BSP 540-541) When asked if the tank were to fail would it affect fire protection, witness Brown responded, "It probably would." (EXH 75, BSP 541)

Advancing cash to the President and associated companies in lieu of making required debt service payments and needed capital improvements has exacerbated WMSI's financial distress and threatened utility operations as well as the safety of the ratepayers. WMSI is a Class A water utility that has been severely undercapitalized since its inception. Staff believes that diverting funds to the President and associated companies for non-utility purposes runs counter to the Utility's responsibility to operate in the public interest.

The essence of the Utility's argument that the Utility's advances to WMSI's President and associated companies have not had any adverse impact on the Utility or its ratepayers is that "The customers pay no additional interest expense as a result of the re-amortization of the DEP loan to match the depreciation rate of the asset purchased with the loan" and "...Gene Brown and affiliates have substantially subsidized WMSI." (WMSI BR 16, 17) However, it is undisputed that extending the life of the DEP loan increased the total amount of interest that will be paid on that loan. Whether, through the process of reconciling rate base with capital structure, ratepayers eventually will pay the entire amount of increased interest expense associated with the restructured loan is not the sole or most relevant determinant of whether advancing funds to the President and associated companies adversely affected WMSI. The more pressing issue is the ability to, in the future, attract capital and attract capital at a reasonable rate which is degraded by defaulting on loans, paying bills late, and postponing necessary infrastructure investment.

Regarding the Utility's claim that Gene Brown and affiliates have substantially subsidized WMSI, it is undisputed that WMSI is and always has been severely undercapitalized. (TR 336, 353-354) There is no credible evidence in the record to contradict the finding in the staff's cash flow audit that, "The net receivable of \$1,175,075 from Gene Brown and associated companies, as of December 31, 2010, represents funds that have been moved out of the Utility for either Gene Brown's personal use or one of his associated companies." (EXH 56, p. 13 of 19)

### Conclusion

By advancing funds to the Utility's President and associated companies while it already was in a financially precarious situation, WMSI exacerbated its financial distress and delayed necessary infrastructure improvements. Advancing cash to the President and associated companies in lieu of making required debt service payments and needed capital improvements has degraded the credit profile of the Utility and adversely affected the Utility and is contrary to operating in the public interest. WMSI's failure to replace the water storage tank has threatened utility operations as well as the safety of the ratepayers. Based on the foregoing, staff recommends the President's salary be reduced by 15 percent as addressed in Issue 10(a). Furthermore, absent Commission authority to prohibit advances to the President and associated

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<sup>51</sup> See Order No. PSC-12-0435-PAA-WU, pp. 3, 9, and 27.

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companies for non-utility purposes, the Commission should require WMSI to file quarterly reports delineating all advances, loans, investments, notes receivable and accounts receivable between WMSI and the President and associated companies including the date, amount, and reason for the transaction(s).

**Issue 10(a)**: Should any adjustment be made to the WMSI President's salary?

**Recommendation**: Yes. Based on staff's recommendation in Issue 10, the allowance for the Utility President's salary should be reduced by 15 percent, which results in a reduction of \$14,438. Accordingly, corresponding adjustments should be made to reduce the allowance for the pensions and benefits expense and payroll taxes by \$3,504 and \$1,104, respectively, for a total adjustment of \$19,046. (T. Brown, Cicchetti, Fletcher)

**Position of the Parties**

**WMSI**: Yes. The salary and benefits for the President should be increased by \$19,046 over the PAA Order amount.

**OPC**: Yes. It should be reduced to offset the \$1.1 million of imprudently added interest on the DEP loan which directly resulted from the \$1.2 million imprudently advanced to the Utility president and his companies. To ensure customers do not pay that additional interest, the Commission should reduce the President's salary as discussed below, and if necessary, impute the added interest against revenues in order offset the imprudently added interest in a more timely manner.

**Staff Analysis**: WMSI contended that a 15-percent reduction in salary expense is arbitrary and should be reversed. (TR 60) The Utility's witnesses argued that the reduction of salary and benefits by 15 percent is based on the Commission's analysis that, by the Utility extending the term of the DEP loan, additional interest costs would be borne by the ratepayers. (TR 38, 60) According to the Utility's witnesses, this direct reduction to expenses does not equate to the rate recovery afforded the Utility in the rate-making process, through the calculation of the revenue requirement or in the ultimate rates charged to the customers. As such, WMSI's witnesses asserted that the revenue requirement does not factor in the actual annual interest expense that is required to be paid on the Utility's loans. (TR 60)

Witness Guastella stressed that the actions of WMSI's President did not result in any increase of the rates that the customers will pay and extending the term of the DEP loan should not be the basis for a reduction of his salary. (TR 39) Witness Guastella testified, "I would add that the President's success in obtaining financing for a utility with significant cash flow problems, no equity, and negative retained earnings, is an accomplishment that was in the best interests of the customers in order to make the improvements necessary to continue to provide adequate service." (TR 39) Witness Brown added that his salary of \$110,000 per year is fair and reasonable, especially since it had already been reduced to \$96,250 by another non-protested adjustment in this case. (TR 336) According to the witness, he also reduced his salary in 2009 (from \$150,000) because WMSI was experiencing cash flow problems due to the economy. (TR 336)

In its post-hearing brief, OPC alleged that WMSI was forced to renegotiate its DEP loan several times, even through the Commission had approved rates that should have been sufficient to allow the Utility to repay the DEP loan. (OPC BR 35) According to OPC, these renegotiations of the DEP loan were unnecessary and directly added more than \$1.1 million in additional interest which the customers will eventually have to pay. (OPC BR 35-36) OPC

witness Schultz argued that for reasons similar to those put forward in staff's PAA recommendation, a salary reduction would be appropriate here. (TR 148)

While advocating for the reduction, witness Schultz claimed that staff's recommended salary reduction does not take into account the additional interest added to the life of the loan. Witness Schultz asserted that since additional amendments have been made to the DEP loan, the salary and benefits reduction should be increased to offset the added interest. The witness noted that the incremental interest expense referenced in staff's PAA recommendation, \$928,071, was calculated through December 31, 2010. The witness asserted that the incremental difference in interest between the original loan payment schedule and the Amendment 5 payment schedule is \$1,123,060. (TR 149) OPC also argued that since the Utility failed to carry its burden of proof to increase the President's salary, overall rate case expense associated with this issue should be reduced by 1/12 as a result. (OPC BR 36) As stated previously, any potential reduction to current rate case expense is addressed in Issue 7.

Staff believes that this matter is a fall-out of Issue 10. Any adjustments being made here are strictly related to staff's recommendation in the previous issue. As such, staff believes that the advances to WMSI's President and associated companies have unnecessarily increased the cost structure of Utility operations. While the Utility asserted that the President's salary should be reinstated to \$96,250, plus benefits, OPC argued that the salary reduction be increased so that \$1.1 million in additional interest is offset over a 10 to 15 year period. (WMSI BR 28; OPC BR 36) Given the actions of the Utility's President, staff recommends that the allowance for the Utility President's salary be reduced by 15 percent, which results in a reduction of \$14,438. Accordingly, corresponding adjustments should be made to reduce the allowance for the pensions and benefits expense and payroll taxes by \$3,504 and \$1,104, respectively, for a total adjustment of \$19,046 (\$14,438 + \$3,504 + \$1,104). Staff believes this adjustment is consistent with the Commission's prior decision on the reduction of the President's salary.<sup>52</sup>

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<sup>52</sup> See Order Nos. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc., pp. 30-31; and PSC-01-1162-PAA-WU, issued May 22, 2001, In re: Application for staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 28.

**REVENUE REQUIREMENT**

**Issue 11:** What is the appropriate revenue requirement?

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

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$1,305,587	\$598,129	\$1,903,716	45.81%

(T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** Fall-out from other issues.

**Staff Analysis:** In its filing, WMSI requested a revenue requirement to generate annual revenue of \$2,019,622. This requested revenue requirement represents a revenue increase of \$714,035, or approximately 54.69 percent. Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a revenue requirement of \$1,903,716. The computation of the revenue requirement is shown on Schedule No. 3-A. The recommended water revenue requirements exceeds staff's adjusted test year revenues by \$598,129, or 45.81 percent. This recommended pre-repression revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 5.61 percent return on its investment in rate base.

## **RATES**

**Issue 12:** Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this Utility?

**Recommendation:** Yes. A repression adjustment of 7.7 percent is appropriate in this case, resulting in residential consumption being reduced by 8,951,000 gallons. (King, Stallcup)

## **Position of the Parties**

**WMSI:** Yes. This was not a protested issue and a repression adjustment should be made consistent with the PAA Order. The amount is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** Fall-out from other issues.

**Staff Analysis:** In the PAA Order, issued August 22, 2012, the Commission approved the application of a repression adjustment of 6.9 percent that resulted in residential consumption being reduced by approximately 7,900,000 gallons. The adjustment was calculated using staff's standard methodology to determine customers' reaction to changes in price.<sup>53</sup> Since the application of a repression adjustment was not a protested issue, the recommended repression adjustment in this case is a fall-out calculation based upon the new revenue requirement discussed in Issue 11. Therefore, staff recommends a repression adjustment of 7.7 percent in this case, resulting in residential consumption being reduced by 8,951,000 gallons.

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<sup>53</sup> In its PAA Order, the Commission noted that many homes on St. George Island are not fulltime owner-occupied homes but are vacation rental properties. Like the General Service class, these homeowners may pass along increases to their customers (i.e., the vacation home renter). To reflect this relative insensitivity to price changes, the price elasticity of demand was set at -0.2 instead of -0.4 normally used to calculate repression adjustments.

**Issue 13:** What are the appropriate water rates for the Utility?

**Recommendation:** The appropriate monthly rates are shown on Schedule No. 4. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (King, Stallcup)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** Fall-out from other issues.

**Staff Analysis:** In its PAA Order, the Commission approved rates that were developed using the billing determinants provided by the Utility in its MFR Schedules, a base facility charge cost recovery percentage of 50 percent, a repression adjustment as discussed in Issue 12, and two rate blocks (0-6,000 and 6,001+). This issue was not protested; as such, the monthly rates are a fall-out calculation, and are shown on Schedule No. 4.

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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. The appropriate monthly rates are shown on Schedule No. 4.



**Issue 14:** Should the Utility be authorized to revise certain service availability charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. WMSI's service availability charges should be revised. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The amount of the service ability charges should be trueed-up and based on actual pro forma plant placed in service during the true-up process established by the PAA Order. The appropriate revised service availability charges are reflected below.

<u>Plant Capacity Charge:</u>	
Residential	\$3,387
All others, per Gallon/day	\$9.68
<u>Main Extension Charge:</u>	
Residential	\$1,523
All others, per Gallon/day	\$4.35
<u>Meter Installation:</u>	
Residential	\$400

(T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** Yes. The Utility should be authorized to impose a service availability charge in the amount of \$10,004.

**OPC:** Service availability charges (SAC) should be set at a combined amount of \$5,310 and subject to a true-up after the pro forma plant is completed. The entire SAC (or alternatively, the increase in SAC) should be escrowed so that those funds will be available for future capital improvements.

**Staff Analysis:** In its PAA filing, the Utility proposed that the service availability charge (SAC) be increased to \$10,004, with the plant capacity charge increasing to \$9,079, the meter installation fee increasing to \$400 and the main extension charge to remain unchanged. (TR 55) According to WMSI witness Allen, this increase would result in the net contributions-in-aid-of-construction (CIAC) to net plant ratio reaching 75 percent at design capacity. In support, WMSI witness Brown claimed that WMSI should be allowed to recover 75 percent of the cost of its plant at build out from its customers who benefit from that plant. (TR 335) The witness added that he has seen PSC cases where utilities were ordered to increase their CIAC closer to the 75 percent standard. As such, witness Brown argued that WMSI should not be treated any differently than the only other Commission-regulated utility in Franklin County, a utility owned by St. Joe, which is allowed to collect CIAC at the 75 percent level. (TR 335)

Witness Allen testified that WMSI's ratio of CIAC to net plant under present charges and assuming no additions to plant, is only 35 percent. After the proposed additions to plant, that ratio will drop to 25 percent at design capacity. The current charges are \$1,620, composed of a plant capacity charge of \$845, a main extension charge of \$525 and a meter installation fee of

\$250. The witness added that the increased level of CIAC will have a mitigating effect on monthly service rates to existing and future customers. (TR 55) Moreover, witness Guastella added that while the projections of the net investment and capacity component of the calculation of the SAC is typically speculative to some extent, that should not be a reason to reduce the allowable SAC, particularly for a utility with a relatively large plant cost in relation to rate base. According to witness Guastella, the proposed SAC will enable the Utility to have sufficient capital in the form of CIAC and to help attract additional capital despite earnings limited to a reduced rate base. (TR 50)

OPC protested the SACs approved by the PAA Order in part because the increased charges were based on future plant yet to be constructed and placed in service. (TR 250) OPC witness Vandiver stated the amount of the increase in SACs established by the PAA Order was calculated consistent with the Commission's methodology for calculating such charges. (TR 250) While the witness did not dispute the methodology used to calculate the increase in the amount of the SACs, she was concerned about the lack of any true-up mechanism, and the absence of any requirement to escrow the increase in SACs. (TR 250-251)

Witness Vandiver contended that the methodology used by the Commission in the PAA Order was reasonable and calculated reasonable SACs. (TR 251) The Commission calculated the average cost per ERC for both the treatment plant and the transmission and distribution plant, and used the average costs per ERC to determine reasonable charges. This calculation resulted in total SACs per ERC of \$5,310, for a \$3,690 increase. The witness stated that the plant capacity, main extension, and meter installation charges established by the PAA Order are reasonable because they are based on a reasonable calculation of average costs per ERC. (TR 252) Additionally, the witness agreed with the Commission's PAA Order which concluded that there is no mandatory requirement in Rule 25-30.580., F.A.C., to set the level at 75 percent and urged the Commission to reject the Utility's request to increase the charges further. (TR 252)

Witness Vandiver recommended that because the SACs are also based in part on pro forma plant, they should be subject to the same escrow and true up provisions as the monthly rates. The true up process and escrow requirements were established in the PAA Order. (TR 251, 253) According to the witness, this Commission has required that SACs be escrowed so that those monies would be available for future capital improvements.<sup>54</sup> (TR 254) The witness added that this will not only benefit the Utility, but the customers as well, by ensuring there are available funds necessary for future capital improvements. (TR 254)

The Utility currently has authorized service availability charges of \$845, \$525, and \$250 for a plant capacity charge, a main extension charge, and a meter installation charge, respectively. The total for these current charges is \$1,620. In its filing, WMSI requested revised SACs of \$10,004. (TR 55) The requested SAC increase was based on the Utility's proposed pro forma plant additions, which were approved in the PAA Order.

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<sup>54</sup> See Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, in Docket No. 940109-WU, In re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd.

The Commission last considered the level of SACs in WMSI's 2010 rate case, but chose not to modify the existing charges.<sup>55</sup> WMSI's existing SACs were last set by the Commission in 1994.<sup>56</sup> When designing the appropriate level of SACs, the Commission relies on Rule 25-30.580, F.A.C., which establishes guidelines for designing service availability policy. Pursuant to the rule, the maximum amount of CIAC, net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution systems.

Staff agrees with witness Allen's testimony that WMSI's ratio of net CIAC to net plant indicates that with present SAC charges and no additions to plant, the ratio is currently only 35 percent. After the proposed additions to plant, that ratio will drop to 25 percent at design capacity. (TR 55) The current charge of \$1,620 is composed of a plant capacity charge of \$845, a main extension charge of \$525, and a meter installation fee of \$250. (TR 55) WMSI proposes that the charge be increased to \$10,004, a 517.56 percent increase. Under WMSI's proposed SACs, the plant capacity charge increases to \$9,079, the meter installation fee increases to \$400, and the main extension charge remains at its current level. In addition, a plant capacity charge for "all others-per gallon/day" increases from \$2.41 to \$25.94. A similar "all others-per gallon/day" charge for the main extension charge remains the same under the Utility's proposal. The proposed plant capacity charge represents an increase of approximately 974 percent over the existing charge. This results in the net CIAC to net plant ratio reaching 75 percent at design capacity. (TR 55) The Utility believes that the increased level of CIAC will have a mitigating effect on monthly service rates to existing and future customers. (TR 55)

Because the Commission uses the rule as a "guideline," staff notes that there is no mandatory requirement to set the level at 75 percent as WMSI witness Brown suggested. (TR 336) WMSI's requested SACs are based in large part on pro forma plant additions that may, or may not, come to fruition, and at a time when customer growth is stagnant. Given those conditions, staff believes that an approximately 518 percent increase in the total SACs per ERC is excessive, with the potential to stunt future growth.

In order to determine what charges might be appropriate, staff calculated the average cost per ERC for both the treatment plant and the transmission and distribution plant as the Commission has done previously.<sup>57</sup> Staff believes that using the average costs per ERC will result in reasonable charges. OPC witness Vandiver agreed with this methodology as well. (TR 251-252) Staff calculated the total treatment plant cost using the adjusted 13-month average of \$7,196,409. Staff then divided this amount by 2,125 which represents the total capacity in ERCs of the treatment plant. This calculation results in an average plant capacity cost per ERC of approximately \$3,387. The corresponding plant capacity charge for "all others-per gallon/day" would be \$9.68 ( $\$3,387/350$  gpd).

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<sup>55</sup> See Order No. PSC-11-0010-SC-WU, pp. 49-50.

<sup>56</sup> See Order No. PSC-94-1383-FOF-WU, pp. 65-66.

<sup>57</sup> See Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.

Staff then took the total transmission and distribution plant of \$3,237,063 (adjusted 13-month average). Staff divided this amount by 2,125 which represents the total capacity in ERCs. Staff's calculation generated an average cost for the transmission and distribution plant of approximately \$1,523, which represents the average main extension charge. The corresponding main extension charge for "all others-per gallon/day" would be \$4.35 (\$1,523/350 gpd).

Staff also believes that the \$400 meter installation charge proposed by WMSI is reasonable, cost based, and should be approved. (EXH 4) This represents a \$150 increase over the existing charge.

Based on the discussion above, staff believes that the appropriate combined SAC per ERC should be \$5,310, a \$3,690 increase. The increase is the result of increases to the plant capacity charge of \$2,542, the main extension charge of \$998, and the meter installation fee of \$150.

While agreeing with the methodology and the reasonableness of the Commission calculated charges, OPC witness Vandiver expressed concern that the proposed SACs were based in large part on pro forma plant. (TR 251-254) Witness Vandiver advocated that the amount of the SACs should be trued-up and based on actual pro forma plant placed in service during the true-up process established by the PAA Order. OPC's witness also promoted placing all, or at least the increased portion, of the SACs into escrow subject to the same escrow requirements established by the PAA Order. (TR 253) Witness Vandiver's primary concern was that if the pro forma plant was not fully completed or was completed at a significantly lower cost, the increased SACs would be overstated and could cause future ratepayers to pay more than their reasonable share of utility plant in service costs through inflated SACs. (TR 253) Staff believes that her concerns are valid, especially given the recent reduction of land costs from the \$420,000 approved in the PAA Order, to \$190,000 currently being paid through escrow.<sup>58</sup>

While staff supports the SACs being trued-up after the pro forma plant is placed in service, staff is reluctant to recommend that all, or a portion, of the increase be placed in escrow. Customer growth in WMSI's service territory is very limited at this time, and as a result, staff believes that the true-up measure will adequately protect both the Utility and its customers. (EXH 40) Accordingly, the amount of the SACs should be trued-up and based on actual pro forma plant placed in service during the true-up process established by the PAA Order.

### Conclusion

WMSI's SACs should be revised. Staff's recommended charges are based on the record, consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The amount of the SACs should be trued-up and based on actual pro forma plant placed in service during the true-up process established by the PAA Order. The appropriate revised SACs for WMSI are reflected below.

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<sup>58</sup> See Order No. PSC-12-0641-PCO-WU, p. 3.

Table 14-1

<u>Service Availability Charges</u>			
<u>Type of Charge</u>	<u>Present Charge</u>	<u>Proposed Charge</u>	<u>Staff Recommended</u>
Plant Capacity Charge-Res. per ERC	\$845	\$9,079.47	\$3,387
Plant Capacity Charge-All others per Gallon/Day	\$2.41	\$25.94	\$9.68
Main Extension Charge-Res. per ERC	\$525	\$525	\$1,523
Main Extension Charge- All others per Gallon/Day	\$1.50	\$1.50	\$4.35
Flow Meter Installation/Res.	\$250	\$400	\$400

Docket No. 110200-WU  
Date: April 12, 2013

**OTHER**

**Issue 15:** Withdrawn by the parties at the January 9, 2013, Prehearing Conference.

**Issue 16** 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 water revenue requirement for the interim collection period should be compared to the amount of interim water revenue requirement granted. This results in no interim refund. As such, the escrow account should be released. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** This is a fall-out issue and should be based on the outcome of other issues. If OPC succeeds on all the issues it protested, necessitating a refund, the refund should be calculated according to standard Commission practice for calculating refunds.

**Staff Analysis:** By Order No. PSC-12-0030-PCO-WU, the Commission authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim water revenue requirement was \$1,417,664, which represented an increase in annual water revenue of \$115,803 or approximately 8.90 percent. This interim increase was effective for service rendered after March 1, 2012, and was protected by funds held in escrow.

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 an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average period ended December 31, 2010. WMSI's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement 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.

Using the principles discussed above, the \$1,417,664 revenue requirement granted in the Interim Order for the test year is less than the revised revenue requirement for the interim collection period of \$1,838,218. This results in no interim refund. As such, the interim escrow account should be released.

**Issue 17:** In determining whether any portion of the implemented PAA rates 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 the incremental rate case expense above that which was embedded in PAA rates during this period. The revised revenue requirement for this collection period should be compared to the amount of PAA revenue requirement implemented. This results in no PAA refund. (T. Brown, Fletcher)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of other protested issues.

**OPC:** Same as OPC's position for Issue 16.

**Staff Analysis:** By Order No. PSC-12-0435-PAA-WU, issued August 22, 2012, the Commission approved the implementation of PAA water rates subject to refund, pursuant to Section 367.081(8), F.S. Consistent with Section 367.082(4), F.S., any refund must 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 this period that do not relate to the period that PAA rates are in effect shall be removed. To establish the proper refund amount, staff calculated a revised revenue requirement for this period using the same data used to establish final rates. The incremental rate case expense above that which was embedded in PAA rates was excluded because it was not an actual expense during the collection period. Using the principles discussed above and in the previous issue, the \$1,811,648 revenue requirement granted in the PAA Order for the test year is less than the revised revenue requirement for the interim collection period of \$1,870,542. This results in no interim refund.



**Issue 18:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** Rates should be reduced for annual rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. Removal of \$60,940 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. 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 for the reduction in the rates due to the amortized rate case expense. (T. Brown, Fletcher, King, Stallcup)

**Position of the Parties**

**WMSI:** This is a fall-out calculation issue subject to the resolution of Issue 7.

**OPC:** Fall-out of rates approved by the Commission in Issue 7.

**Staff Analysis:** Section 367.0816, F.S., requires rates be reduced immediately following the expiration of the four-year amortization 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 included in working capital, and the gross-up for RAFs. Removal of \$60,940 associated with rate case expense will result in the rate reduction shown on Schedule No. 4.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until staff has approved the proposed customer notice. WMSI should provide proof of the date notice was given within ten days of the date of the notice.

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

**Issue 19:** Should this docket be closed?

**Recommendation:** This docket should remain open for staff to verify that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, to process future escrow requests, to confirm that Commission-approved pro forma items have been completed, and to complete a true-up analysis of the pro forma plant costs. Once these actions are complete, this docket should be closed administratively. (Barrera, Lawson, T. Brown)

**Position of the Parties**

**WMSI:** Yes.

**OPC:** No. It should be held open.

**Staff Analysis:** This docket should remain open for staff to verify that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, to process future escrow requests, to confirm that Commission-approved pro forma items have been completed, and to complete a true-up analysis of the pro forma plant costs. Once these actions are complete, this docket should be closed administratively.

**ATTACHMENT A**

**Issues Not in Dispute Deemed Stipulated Pursuant to Section 120.80(13)(b), Florida Statutes.**

(The issues are numbered as designated in the staff proposed agency action recommendation dated July 20, 2012, and approved by the Commission at the August 2, 2012 Commission Conference – See Order No. PSC-12-0435-PAA-WU).

**QUALITY OF SERVICE**

**PAA ISSUE 1:** Is the quality of service provided by Water Management Services, Inc. considered satisfactory?

**STIPULATION:** Yes, the overall quality of service provided by the Utility should be considered satisfactory.

**RATE BASE**

**PAA ISSUE 2:** Should the audit adjustments to which the Utility and staff agree be made?

**STIPULATION:** Yes. Based on the audit adjustments agreed to by the Utility and staff, operations and maintenance (O&M) expenses should be reduced by \$877.

**PAA ISSUE 3:** Should any audit adjustments contested by the Utility be made to rate base?

**STIPULATION:** Yes. WMSI's test year rate base should be adjusted as follows: plant should be increased by \$3,426, and accumulated depreciation should be increased by \$1,420. The following corresponding adjustments should also be made: depreciation expense should reflect a net decrease of \$23,811, and taxes other than income should be decreased by \$1,647.

**PAA ISSUE 5:** Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

**STIPULATION:** The Utility should be allowed to implement the approved rates by submitting the appropriate tariff sheets and proposed notice which shall be verified and approved by our staff. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until notice has been received by the customers. WMSI shall provide proof of the date notice was given within ten days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify this Commission in writing. The following adjustments should also be made to reflect appropriate pro forma plant:

plant in service should be reduced by \$571,040, accumulated depreciation should be increased by \$37,459, net depreciation expense should be increased by \$37,459, and taxes other than income should be reduced by \$5,786. In addition, amortization-other expense should be reduced by \$1,516, to reflect appropriate amortization of retired plant included in pro forma.

**PAA ISSUE 6:** What are the used and useful percentages of the Utility's water system?

**STIPULATION:** WMSI's water treatment plant (WTP) and storage facilities should be considered 100 percent used and useful (U&U). The utility's transmission and distribution (T&D) mains should be considered 100 percent U&U, except for the distribution lines serving the Plantation subdivision that are less than 8 inches in diameter. The distribution lines in the Plantation that are less than 8 inches in diameter should be considered 60.9 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$18,023, \$1,833, and \$154, respectively.

**PAA ISSUE 7:** What is the appropriate amount of unamortized rate case expense?

**STIPULATION:** The appropriate unamortized rate case expense (URCE) is \$176,850.

### **COST OF CAPITAL**

**PAA ISSUE 10:** What is the appropriate return on equity?

**STIPULATION:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 11.16 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. However, it has no effect on the amount of the proposed rate increase because the Utility's capital structure consists of only long-term debt and customer deposits.

### **NET OPERATING INCOME**

**PAA ISSUE 12:** Should any adjustments contested by the Utility be made to test year O&M expenses?

**PARTIAL STIP.:** WMSI's test year O&M expenses should be reduced by \$62,066 after removing the protested adjustment to transportation expense. In addition, plant should be increased by \$6,465. Further, accumulated depreciation and depreciation expense should be increased by \$148 and \$323, respectively.

**PAA ISSUE 14:** What is the appropriate amount of rate case expense?

**STIPULATION:** The appropriate amount of rate case expense is \$124,519. This expense should be recovered over four years for an annual expense of \$31,130. Therefore, annual rate case expense should be reduced by \$23,870.

**RATES**

**PAA ISSUE 18:** What are the appropriate billing determinants for the historical test year ending December 31, 2010?

**STIPULATION:** The appropriate test year billing determinants before repression are those listed in the MFR Schedules E-2 and E-14.

**PAA ISSUE 19:** What are the appropriate rate structures for the Utility's water systems?

**STIPULATION:** From a financial integrity point, a two-tier rate structure featuring a relatively modest increase in price of the second tier will remove the economic incentive to install shallow wells. The approved rate structure will still achieve water conservation goals established by the NFWFMD, by having inclining block rates, while simultaneously helping insure long term financial viability for the Utility. Therefore, we find a two-tier inclining block rate structure with the base facility charge cost recovery level of 50 percent with usage blocks set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals is appropriate..

**PAA ISSUE 22:** Should the Utility's request for approval of a \$5.00 late fee be granted?

**STIPULATION:** Yes. The Utility's requested late fee of \$5.00 should be approved. The late fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notices required in other issues.

**PAA ISSUE 23:** Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

**STIPULATION:** Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notice required in other issues.

**PAA ISSUE 27:** 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 NARUC USOA primary accounts associated with the Commission approved adjustments?

**STIPULATION:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, WMSI 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.

<b>Water Management Services, Inc. - Protest</b>				<b>Schedule No. 1-A</b>	
<b>Schedule of Water Rate Base</b>				<b>Docket No. 110200-WU</b>	
<b>Test Year Ended 12/31/10</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$8,840,469	\$3,353,442	\$12,193,911	(\$558,564)	\$11,635,347
2 Land and Land Rights	87,856	501,238	589,094	(5,279)	583,815
3 Non-used and Useful Components	0	0	0	(18,023)	(18,023)
4 Accumulated Depreciation	(3,345,867)	182,184	(3,163,683)	(39,157)	(3,202,840)
5 CIAC	(3,322,830)	0	(3,322,830)	0	(3,322,830)
6 Amortization of CIAC	1,420,734	0	1,420,734	0	1,420,734
7 Advances for Construction	(12,019)	712	(11,307)	0	(11,307)
8 Working Capital Allowance	39,885	0	39,885	(39,885)	0
9 Other - CWIP	<u>48,946</u>	<u>(48,946)</u>	<u>0</u>	<u>0</u>	<u>0</u>
10 <b>Rate Base</b>	<b><u>\$3,757,174</u></b>	<b><u>\$3,988,630</u></b>	<b><u>\$7,745,804</u></b>	<b><u>(\$660,907)</u></b>	<b><u>\$7,084,897</u></b>

Water Management Services, Inc. - Protest Adjustments to Rate Base Test Year Ended 12/31/10		Schedule No. 1-B Docket No. 110200-WU
Explanation	Water	
<u>Plant In Service</u>		
1	Prior Order Adjustment from AF 1. (Stipulated)	\$3,426
2	Reflect appropriate pro forma plant. (Stipulated)	(571,040)
3	Reclassifying items expensed to plant. (Stipulated)	6,465
4	Reflect appropriate test year plant. (Issue 8)	<u>2,585</u>
	Total	<u>(\$558,564)</u>
<u>Land</u>		
	Reflect appropriate pro forma land. (Stipulated)	<u>(\$5,279)</u>
<u>Non-used and Useful</u>		
	To reflect net non-used and useful adjustment. (Stipulated)	<u>(\$18,023)</u>
<u>Accumulated Depreciation</u>		
1	Prior Order Adjustment from AF 1. (Stipulated)	(\$1,420)
2	Reflect appropriate pro forma plant. (Stipulated)	(37,459)
3	Reclassifying items expensed to plant. (Stipulated)	(148)
4	Reflect appropriate test year plant. (Issue 8)	<u>(129)</u>
	Total	<u>(\$39,157)</u>
<u>Working Capital</u>		
	Reflect appropriate working capital allowance. (Issue 1)	<u>(\$39,885)</u>



Water Management Services, Inc. - Protest Capital Structure-Simple Average Test Year Ended 12/31/10						Schedule No. 2 Docket No. 110200-WU		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$11,778,773	\$0	\$11,778,773	(\$4,137,492)	\$7,641,281	98.65%	5.96%	5.88%
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	(2,163,302)	2,163,302	0	0	0	0.00%	11.16%	0.00%
5 Customer Deposits	112,209	(7,685)	104,524	0	104,524	1.35%	6.00%	0.08%
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7 <b>Total Capital</b>	<u>\$9,727,680</u>	<u>\$2,155,617</u>	<u>\$11,883,297</u>	<u>(\$4,137,492)</u>	<u>\$7,745,805</u>	<u>100.00%</u>		<u>5.96%</u>
<b>Per Staff</b>								
8 Long-term Debt	\$11,778,773	\$0	\$11,778,773	(\$4,798,399)	\$6,980,374	98.52%	5.60%	5.52%
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	0	0	\$0	\$0	0	0.00%	11.16%	0.00%
12 Customer Deposits	104,524	0	104,524	\$0	104,524	1.48%	6.00%	0.09%
13 Deferred Income Taxes	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
14 <b>Total Capital</b>	<u>\$11,883,297</u>	<u>\$0</u>	<u>\$11,883,297</u>	<u>-\$4,798,399</u>	<u>\$7,084,898</u>	<u>100.00%</u>		<u>5.61%</u>
						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.61%</u>	<u>5.61%</u>	

Water Management Services, Inc. - Protest Statement of Water Operations Test Year Ended 12/31/10						Schedule No. 3-A Docket No. 110200-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$1,291,712</u>	<u>\$727,910</u>	<u>\$2,019,622</u>	<u>(\$714,035)</u>	<u>\$1,305,587</u>	<u>\$598,129</u> 45.81%	<u>\$1,903,716</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	1,115,100	14,452	1,129,552	(47,115)	1,082,437		1,082,437
3 Depreciation	199,395	52,841	252,236	12,268	264,504		264,504
4 Amortization	14,616	9,784	24,400	(2,675)	21,725		21,725
5 Taxes Other Than Income	107,672	44,113	151,785	(40,823)	110,962	26,916	137,878
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 <b>Total Operating Expense</b>	<u>1,436,783</u>	<u>121,190</u>	<u>1,557,973</u>	<u>(78,345)</u>	<u>1,479,628</u>	<u>26,916</u>	<u>1,506,544</u>
8 <b>Operating Income</b>	<u>(\$145,071)</u>	<u>\$606,720</u>	<u>\$461,649</u>	<u>(\$635,690)</u>	<u>(\$174,041)</u>	<u>\$571,213</u>	<u>\$397,172</u>
9 <b>Rate Base</b>	<u>\$3,757,174</u>		<u>\$7,745,804</u>		<u>\$7,084,897</u>		<u>\$7,084,897</u>
10 <b>Rate of Return</b>	<u>-3.86%</u>		<u>5.96%</u>		<u>-2.46%</u>		<u>5.61%</u>

Water Management Services, Inc. - Protest Adjustment to Operating Income Test Year Ended 12/31/10	Schedule 3-B Docket No. 110200-WU
Explanation	Water
<u>Operating Revenues</u>	
Remove requested final revenue increase.	<u>(\$714,035)</u>
<u>Operation and Maintenance Expense</u>	
1 Agreed Upon Audit Adjustment. (Stipulated)	(\$877)
2 To reflect appropriate O&M expense from AF 4. (Stipulated)	(62,066)
3 To reflect appropriate PAA rate case expense for instant case. (Stipulated)	(23,870)
4 To reflect cost of life insurance policy. (Issue 3)	39,258
5 Reflect appropriate contractual services - accounting. (Issue 4)	(5,883)
6 To reflect the appropriate transportation expenses. (Issue 5)	(218)
7 To reflect appropriate incremental Post-PAA rate case expense. (Issue 7)	27,068
8 Reflect appropriate test year plant. (Issue 8)	(2,585)
9 To reflect officer salary reduction. (Issue 10(a))	<u>(17,941)</u>
Total	<u>(\$47,115)</u>
<u>Depreciation Expense - Net</u>	
1 Prior Order Adjustment from AF 1. (Stipulated)	\$804
2 To reflect appropriate depreciation expense from AF5. (Stipulated)	(24,615)
3 Reflect appropriate pro forma plant. (Stipulated)	37,459
4 To remove net depreciation on non-U&U adjustment above. (Stipulated)	(1,833)
5 Reclassifying items expensed to plant. (Stipulated)	323
6 Reflect appropriate test year plant. (Issue 8)	<u>129</u>
Total	<u>\$12,268</u>
<u>Amortization-Other Expense</u>	
1 To reflect appropriate amortization of retired plant included in pro forma. (Stipulated)	(\$1,516)
2 To amortize net gain on sales. (Issue 9)	<u>(1,159)</u>
Total	<u>(\$2,675)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above.	(\$32,132)
2 To reflect appropriate TOTI from AF6. (Stipulated)	(1,647)
3 Reflect appropriate pro forma plant. (Stipulated)	(5,786)
4 To remove TOTI on non-U&U adjustment above. (Stipulated)	(154)
5 To reflect officer salary reduction. (Issue 10(a))	<u>(1,104)</u>
Total	<u>(\$40,823)</u>

<b>Water Management Services, Inc. - Protest</b>		<b>Schedule No. 4</b>		
<b>Water Monthly Service Rates</b>		<b>Docket No. 110200-WU</b>		
<b>Test Year Ended 12/31/10</b>				
	<b>Utility Requested Final</b>	<b>PAA Approved/ Implemented</b>	<b>Staff Recomm. Final</b>	<b>4-year Rate Reduction</b>
<b><u>Residential</u></b>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$43.06	\$34.83	\$36.60	\$1.17
3/4"	\$64.59	\$52.25	\$54.90	\$1.76
1"	\$107.66	\$87.08	\$91.50	\$2.93
1-1/2"	\$215.31	\$174.15	\$183.00	\$5.86
Gallonage Charge, per kgal				
0-8,000 Gallons	\$5.11			
8,001-15,000 Gallons	\$6.38			
over 15,000 Gallons	\$7.68			
0-6,000 Gallons		\$6.21	\$6.53	\$0.21
over 6,000 Gallons		\$7.03	\$7.52	\$0.24
<b><u>General Service, includes Public &amp; Multi-family</u></b>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$43.06	\$34.83	\$36.60	\$1.17
3/4"	\$64.59	\$52.25	\$54.90	\$1.76
1"	\$107.66	\$87.08	\$91.50	\$2.93
1-1/2"	\$215.31	\$174.15	\$183.00	\$5.86
2"	\$344.51	\$278.64	\$292.80	\$9.37
3" Compound	\$645.95	\$557.28	\$585.60	\$18.75
3" Turbine	\$753.63	\$609.53	\$640.50	\$20.50
4" Compound	\$1,076.60	\$870.75	\$915.00	\$29.29
4" Turbine	\$1,291.90	\$1,044.90	\$1,098.00	\$35.15
6" Compound	\$2,153.16	\$1,741.50	\$1,830.00	\$58.58
6" Turbine	\$2,691.46	\$2,176.88	\$2,287.50	\$73.23
8" Compound	\$3,445.09	\$2,786.40	\$2,928.00	\$93.73
8" Turbine	\$3,875.69	\$3,134.70	\$3,294.00	\$105.44
10" Compound	\$4,952.30	\$4,005.45	\$4,209.00	\$134.73
10" Turbine	\$6,244.19	\$5,050.35	\$5,307.00	\$169.88
12" Compound	\$9,258.64	\$7,488.45	\$7,869.00	\$251.90
Gallonage Charge, per 1,000 Gallons	\$7.28	\$6.56	\$6.94	\$0.22
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>				
3,000 Gallons	\$58.39	\$53.46	\$56.19	
5,000 Gallons	\$68.61	\$65.88	\$69.25	
10,000 Gallons	\$96.70	\$100.21	\$105.86	