

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** April 24, 2014

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

**FROM:** Division of Engineering (Lee) *AV ERK QW TJS*  
Division of Accounting and Finance (T. Brown, Kelly, Prestwood, Springer) *CDP*  
Division of Economics (Thompson) *KT PD SA J.W.D.*  
Office of the General Counsel (Gilcher) *goc JCL*

*CRBY*  
*ALM*

**RE:** Docket No. 130212-WS – Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

**AGENDA:** 05/9/14 – Regular Agenda – Proposed Agency Action except for Issues 22 and 23 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** 5-Month Effective Date Waived Through 05/09/14

**SPECIAL INSTRUCTIONS:** None

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### **Case Background**

Cypress Lakes Utilities, Inc. (CLU or Utility), a wholly-owned subsidiary of Utilities, Inc. (UI), is a Class B utility in Polk County. Rates were last established for CLU in its limited proceeding in Docket No. 090349-WS.<sup>1</sup> CLU's last full rate case proceeding was in Docket No. 060257-WS.<sup>2</sup>

On September 30, 2013, CLU filed its application for a rate increase at issue in the instant docket. The Utility's application met the minimum filing requirements (MFRs) on September 30, 2013. The test year established for interim and final rates is the simple average period ended December 31, 2012. The Utility served of 1,447 residential water and wastewater customers and several general service water and wastewater customers during the test year. CLU also served approximately 40 general service water only customers.

On December 3, 2013, the Commission approved an interim rate increase designed to generate an interim revenue increase of \$85,052 (26.80 percent) for the water system only.<sup>3</sup> The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final revenue increases of \$100,603 (31.71 percent) for water and \$26,350 (3.95 percent) for wastewater.

A customer meeting was held on December 19, 2013. In letters filed on December 12, 2013, and January 30, 2014, the Office of Public Counsel (OPC) outlined issues that it believes staff should consider in its recommendation. Letters from customers opposing the rate increase were also filed in the docket.

The original five-month statutory deadline for the Commission to address the Utility's requested final rates has been waived by the Utility through May 9, 2014.

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

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<sup>1</sup> See Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 090349-WS, In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.

<sup>2</sup> See Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, in Docket No. 060257-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

<sup>3</sup> See Order No. PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

### **Discussion of Issues**

**Issue 1:** Is the quality of service provided by Cypress Lakes Utilities, Inc., satisfactory?

**Recommendation:** Yes. Staff recommends that the quality of service provided by Cypress Lakes Utilities, Inc. (CLU or Utility), be considered satisfactory. There are no outstanding enforcement issues regarding the operational condition of the Utility's water and wastewater facilities. Based on test results, the water provided by the Utility appears to meet all quality standards and CLU appears to be responsive to its customers. (Lee)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction.

Staff's review includes CLU's current compliance with the Department of Environmental Protection (DEP) for wastewater and Polk County Health Department (PCHD) for water. Staff found no outstanding enforcement issues regarding the operational condition of CLU's plant and facilities. However, CLU's water operation has long been a main area of customer dissatisfaction, PCHD actions, and the Commission's previous review of the Utility's quality of service. Therefore, the following discussion is focused on the water product and operation.

#### **Commission's Previous Decisions**

In Docket No. 060257-WS, the customers expressed dissatisfaction with water quality, particularly a lack of consistent chlorine residual that resulted in finished water having a strong sulfur odor. By Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, the Commission determined that the quality of service provided by CLU was marginally satisfactory. The decision was in part due to the lack of sufficient demonstration by the Utility for its effort to address the water quality problems. In an effort to improve the customer satisfaction, the Commission required CLU to perform a complete evaluation of options to address the problems.

In Docket No. 090349-WS, the Commission reviewed the Utility's efforts to address the problems, deficiencies found by PCHD, and dissatisfaction expressed by customers. In Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, the Commission noted that CLU had made modifications, such as the interconnection of a common header pipe system, based on its consultant's evaluation of the prime cause of the problems. The modifications were successful in improving the chlorine residual issue throughout the area until 2010 when the issue recurred. CLU admitted that it failed to maintain the free chlorine residual between 0.2 parts per million (ppm) and 4 ppm and agreed to pay \$1,799 to settle with PCHD in a Consent Order dated June 1, 2010.

The Commission recognized these deficiencies and the dissatisfaction expressed by customers. However, the Utility was actively working to maintain compliance with the PCHD to address customer concerns regarding the quality of the water product. CLU initiated a comprehensive flushing of dead end lines in 2010. The Utility also planned to implement the unidirectional flushing program and the installation of meters at flushing points. All things

considered, the Commission reached the conclusion in the last limited rate case that the quality of service provided by CLU was satisfactory.

### Review of Recent Developments

CLU converted to chloramine disinfection in July 2011. The conversion was necessary because the previous disinfectant, free chlorine, has a tendency to react with naturally-occurring materials in CLU's water supply to form undesirable byproducts exceeding the level allowed by DEP regulations. Chloramine, also known as combined chlorine, is a weaker disinfectant resulting from the combination of chlorine and ammonia and requires a more extensive flushing program.

To better quantify and control the flushing, CLU installed automatic flushing valves (AFVs) at fourteen locations to supplement its manual flushing points in existence before 2010. In addition, CLU installed meters at 11 of these flushing points in 2012 and 2013. The remaining three AFV flushing points are to be metered in 2014.

According to data provided by CLU, 23.9 million gallons of water were estimated for the flushing use in the test year of 2012. That is 32 percent of the 74.6 million gallons of treated water metered at the water treatment plant. In 2013, flushing use is estimated to be 51 percent of the 94.3 million gallons of treated water.

The high amount of flushing in 2013 may be attributed to CLU's response to a deficiency found by PCHD in a sanitary survey inspection conducted on February 1, 2013. The combined chlorine residual was found to be less than the required 0.6 ppm in the distribution system. In its response to PCHD, the Utility stated that the combined chlorine residual of 0.6 ppm was established throughout the distribution system within 24 hours of notification by PCHD. According to CLU, it addressed the issue by flushing daily and checking residuals daily in all areas of the community to insure that the minimum combined chlorine residual is met.

### Quality of Service Concerns

A customer meeting was held on December 19, 2013, at the Cypress Lakes Clubhouse in Lakeland, Florida. Approximately 60 customers attended the evening meeting and 7 customers signed up to comment. Customers who did not sign up were also given an opportunity to speak. The majority of those who commented expressed concerns that the proposed rate increase will likely produce little or no tangible improvement in water quality based on their own experiences. Several attendees also expressed dissatisfaction with the water quality provided by the Utility. Similar correspondence from customers opposing the rate increase was also filed in the docket.

As part of the follow-up of actions taken to address the water quality concerns raised at the customer meeting, staff requested that CLU conduct tests of 16 inorganic and 14 secondary contaminants regulated in Florida, for the water supply of seven customers who raised water quality concerns at the meeting. Based on test results provided by CLU, the levels of these contaminants are below the maximum levels allowed and appear to meet the quality standards.

Some customers were also concerned with the rising level of treated water that is used by CLU for flushing. While flushing may be necessary to address PCHD's requirement regarding

the minimum combined chlorine residual, excessive flushing may be inconsistent with the consumptive use policies under the jurisdiction of Southwest Florida Water Management District (SWFWMD). Dr. Robert M. Halleen, a customer representing the Cypress Lakes Homeowners' Association, raised questions in his letters about CLU's water data and pointed out that the amount of wastewater treated exceeds the water sold. OPC also raised a similar issue of excessive treatment costs that should be reduced. These cost concerns related to infiltration and inflow (I&I) in the wastewater system and excessive unaccounted for water (EUW) in the water system are addressed in Issue 6.

### Summary

The Utility appears to have taken reasonable actions to comply with regulations under the jurisdictions of PCHD and DEP. There are no outstanding enforcement issues regarding the operational condition of the Utility's water and wastewater facilities. Based on test results, the water provided by CLU appears to have met the quality standards. Additionally, CLU appears to be responsive to its customers. Therefore, staff recommends that the quality of service provided by the Utility be considered satisfactory.

**Issue 2:** Should the audit adjustments to rate base to which the Utility agrees be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base as set forth in staff's analysis below. (Kelly, Springer)

**Staff Analysis:** In its response to the staff audit report and other correspondence, CLU agreed to the audit adjustments as set forth in the tables below.

Table 2-1

Agreed to Audit Adjustments (Water)				
<u>Water-CLU Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>
Finding No. 2 - Reflect retirements not recorded.	(\$22,732)	\$22,820	\$0	\$0
Finding No. 4- Correct expenses misclassified as plant.	(1,510)	155	0	0
Finding No. 7 - Correct roll forward accumulated depreciation adjustment.	0	(1,018)	0	0
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of-Construction.	199,550	(23,583)	(200,190)	23,685
Finding No. 10 - Reflect appropriate accumulated amortization of Contributions-in-Aid-of-Construction.	0	0	0	(9,164)
Subtotal Water – CLU Adjustments	<u>\$175,308</u>	<u>(\$1,626)</u>	<u>(\$200,190)</u>	<u>\$14,521</u>
<u>Water-Affiliate Audit Findings</u>				
Finding No. 1 - Correct reallocated transportation accounts.	(\$9,820)	\$1,017	\$0	\$0
Finding No. 4 - Reflect prior Commission-ordered adjustments.	(7,377)	14,957	0	0
Subtotal Water - Affiliate Adjustments	<u>(\$17,197)</u>	<u>\$15,974</u>	<u>\$0</u>	<u>\$0</u>
Total Water Audit Adjustments	<u>\$158,09</u>	<u>\$14,346</u>	<u>(\$200,190)</u>	<u>\$14,521</u>

Table 2-2

Agreed to Audit Adjustments (Wastewater)				
<u>Wastewater-CLU Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>
Finding No. 2 - Reflect retirements not recorded.	(\$16,896)	\$19,801	\$0	\$0
Finding No. 4- Correct expenses misclassified as plant.	(1,823)	246	0	0
Finding No. 5 - Correct costs associated with sludge equipment.	(2,335)	254	0	0
Finding No. 6 - Correct misclassification of wastewater treatment additions and retirements.	(16,639)	(72,950)	0	0
Finding No. 7 - Correct roll forward accumulated depreciation adjustment.	0	(2,011)	0	0
Finding No. 8- Correct accumulated depreciation understatement.	0	(86,626)	0	0
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of-Construction.	<u>463,551</u>	<u>(70,429)</u>	<u>(466,036)</u>	<u>70,703</u>
Subtotal Wastewater - CLU Adjustments	<u>\$425,858</u>	<u>(\$211,715)</u>	<u>(\$466,036)</u>	<u>\$70,703</u>
<u>Wastewater-Affiliate Audit Findings</u>				
Finding No. 1 - Correct reallocated transportation accounts.	(\$9,025)	\$935	\$0	\$0
Finding No. 4 - Reflect prior Commission-ordered adjustments.	<u>(6,780)</u>	<u>13,745</u>	<u>0</u>	<u>0</u>
Subtotal Wastewater - Affiliate Adjustments	<u>(\$15,805)</u>	<u>\$14,680</u>	<u>\$0</u>	<u>\$0</u>
Total Wastewater Audit Adjustments	<u>\$410,053</u>	<u>(\$197,036)</u>	<u>(\$466,036)</u>	<u>\$70,703</u>



**Issue 3:** Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation:** Yes. Plant should be reduced by \$14,801 for water and \$13,593 for wastewater. Corresponding adjustments should be made to reduce accumulated depreciation by \$13,658 for water and \$12,545 for wastewater and to reduce depreciation expense by \$4,032 for water and \$3,703 for wastewater. Computer maintenance expense should be reduced by \$2,306 for water and \$2,118 for wastewater. In addition, consistent with the Commission's previous decisions, CLU should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in the Utility's next rate proceeding. Furthermore, when appropriate, the regulatory asset or liability should be amortized over four years. (T. Brown)

**Staff Analysis:** The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. UI's Phoenix Project became operational in December 2008. Since 2009, the Commission has approved recovery of the cost of the Phoenix Project in several UI rate cases.<sup>4</sup> In those cases, UI allocated the Phoenix Project costs based on the ratio of each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs. In the instant case, UI allocated 0.91 percent of its costs to CLU based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are \$22,561,496,<sup>5</sup> of which the Utility calculated its allocated share to be or \$206,196.

#### 2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as subsidiaries in other states. By Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, the Commission found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.<sup>6</sup> Because no added benefit was realized by the remaining subsidiaries, the Commission found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, the Commission ruled that the divested subsidiaries' allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

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<sup>4</sup> See Docket Nos. 120209-WS, 120076-SU, 120037-WS, 110257-WS, 110264-WS, 110153-SU, 100426-WS, 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>5</sup> See Audit Control No. 13-296-4-2, Work Paper No. 22-5.6.1, in Docket No. 130212-WS.

<sup>6</sup> See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

Affiliate Audit Finding Nos. 2 and 3

By Order No. PSC-10-0407-PAA-SU, issued June 21, 2010 in Docket No. 090381-SU, the Commission established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and then required UI to deduct \$1,724,166 from the total cost of the Phoenix Project for divestitures, resulting in a balance of \$19,893,321, before allocating costs to the remaining UI subsidiaries.<sup>7</sup> According to staff's affiliate audit report, the Utility did not make adjustments in the MFRs to reflect the amounts ordered for the Phoenix Project. Affiliate Audit Finding No. 2 recommends that plant and accumulated depreciation be reduced to reflect the allocated share of the Commission-ordered Phoenix Project cost of \$19,893,321. The Utility shows the Phoenix Project balance at December 31, 2008, to be \$21,525,403. The difference between the Utility's balance and the ordered amount is \$1,632,082.

In Affiliate Audit Finding No. 3, audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Audit staff adjusted the accumulated depreciation and depreciation expense on the Phoenix Project from eight to ten years to comply with the Order.

In its response to the affiliate audit, the Utility did not object to the Affiliate Audit Findings. However, the Utility believes that the treatment of Phoenix Project costs in Affiliated Audit Finding No. 2 should be held in abeyance pending the outcome of the UI Generic Docket No. 120161-WS.<sup>8</sup> No additional information was provided by the Utility. Staff believes that the appropriate depreciable life for the Phoenix Project is still ten years. Therefore, staff decreased water and wastewater plant by \$14,851. Corresponding adjustments should also be made to decrease accumulated depreciation by \$25,526, and decrease depreciation expense by \$6,381. Based on Affiliate Audit Finding Nos. 2 and 3, the Commission's prior orders, and the additional subsidiary divestitures discussed below, staff believes that additional adjustments need to be made to plant, accumulated depreciation, and depreciation expense.

Additional Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries in North Carolina, South Carolina, and Florida. The four divested systems collectively represent 9,518 ERCs. By Order No. PSC-12-0206-PAA-WS, the Commission further reduced the total cost of the Phoenix Project for systems divested in 2010.<sup>9</sup> In 2011 and 2012, a total of nine additional systems were divested by UI, representing an additional 7,909 ERCs. Consistent with prior Commission decisions, the adjustment to deduct the proportional amount of the divested companies from the

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<sup>7</sup> See Order No. PSC-10-0407-PAA-SU, issued on June 21, 2010, in Docket No. 090381-WS, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 6.

<sup>8</sup> On May 23, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida-subsiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address the Commission's treatment of the Phoenix Project costs. This generic docket has been assigned Docket No. 120161-WS.

<sup>9</sup> See Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., p. 12; and Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

total cost of the Phoenix Project should also be made for subsequent divestitures. By Order No. PSC-14-0025-PAA-WS, the Commission further reduced the total cost of the Phoenix Project for systems divested in 2011 and 2012.<sup>10</sup> No additional divestitures were reported through 2013. For purposes of this adjustment, the net number of ERCs related to the divested systems is 17,427 (9,518 + 7,909), or 6.57 percent of the total number of ERCs through the 2012 test year for UI. The divested systems and the corresponding ERCs are shown in the table below.

Table 3-1

ERC/Percentage of Divested Subsidiaries		
<u>System</u>	<u>ERCs</u>	<u>ERC%</u>
Bio Tech Admin.	0	0.00%
Carolina Water Serv., Inc. of N.C.	327	0.12%
South Carolina Utilities, Inc. (United Utility Company)	246	0.09%
Alafaya Utilities, Inc. (as of 12/31/07)	8,945	3.37%
Carolina Water Serv., Inc. of N.C.	512	0.19%
Cabarrus Woods	5,175	1.95%
Forest Ridge	518	0.20%
Lamplighter Village	349	0.13%
Britley	123	0.05%
Windsor Chase	135	0.05%
Bayside Utility Services	437	0.16%
Sandy Creek Services	370	0.14%
Woodbury Subdivision	<u>290</u>	<u>0.11%</u>
Total	<u>17,427</u>	<u>6.57%</u>

Consistent with the Commission's prior decisions, the total cost of the Phoenix Project for UI should be reduced by an additional 6.57 percent, or \$1,481,788 ( $\$22,561,496 \times 0.0657$ ), to account for the divestiture of subsidiaries through 2012. The effect on the filing decreases water and wastewater plant by \$7,060 and \$6,483, respectively. Corresponding adjustments should also be made to decrease water and wastewater accumulated depreciation by \$353 and \$324, respectively. Water and wastewater depreciation expense should also be decreased by \$706 and \$648, respectively.

<sup>10</sup> See Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, p. 12.

Tables 3-2 through 3-4 show the plant, accumulated depreciation, and depreciation expense adjustments described above by water and wastewater service, as well as the total adjustment for each service which is reflected on the appropriate Schedule Nos. 1-C and 3-C.

Table 3-2

Plant Adjustments			
<u>System</u>	<u>Divestiture Plant Adj.</u>	<u>Prior Order Plant Adj.</u>	<u>Total Adjustment</u>
Water	(\$7,060)	(\$7,741)	(\$14,801)
Wastewater	(6,483)	(7,110)	(13,593)
Total	<u>(\$13,543)</u>	<u>(\$14,851)</u>	<u>(\$28,393)</u>

Table 3-3

Accumulated Depreciation Adjustments			
<u>System</u>	<u>Divestiture Acc. Dep. Adj.</u>	<u>Prior Order Acc. Dep. Adj.</u>	<u>Total Adjustment</u>
Water	\$353	\$13,305	\$13,658
Wastewater	324	12,221	12,545
Total	<u>\$677</u>	<u>\$25,526</u>	<u>\$26,203</u>

Table 3-4

Depreciation Expense Adjustments			
<u>System</u>	<u>Divestiture Dep. Exp. Adj.</u>	<u>Prior Order Dep. Exp. Adj.</u>	<u>Total Adjustment</u>
Water	(\$706)	(\$3,326)	(\$4,032)
Wastewater	(648)	(3,055)	(3,703)
Total	<u>(\$1,354)</u>	<u>(\$6,381)</u>	<u>(\$7,735)</u>

### Computer Maintenance Expense

In several recent rate cases involving CLU's sister companies, the Commission recognized the volatility of computer maintenance expense. Due to this volatility, the Commission determined that a five-year average is an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC.<sup>11</sup> Based on the five-year average and CLU's ERC allocation percentage, staff calculated a reduction of \$2,216 for water and \$2,035 for wastewater. Moreover, to remove the Phoenix

<sup>11</sup> See Order No. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Project computer maintenance charge for the divested systems' share, computer maintenance expense should be further reduced by \$90 for water and \$82 for wastewater. The following table shows the adjustments described above by water and wastewater service. The total adjustments are reflected on Schedule No. 3-C.

Table 3-5

Computer Maintenance Expense Adjustments			
<u>System</u>	<u>5-yr. Avg. Exp. Adj.</u>	<u>Divest. Adj.</u>	<u>Total Adjustment</u>
Water	(\$2,216)	(\$90)	(\$2,306)
Wastewater	(2,035)	(82)	(2,118)
Total	(\$4,251)	(\$172)	(\$4,424)

### Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (CLU's parent company), with the consent and support of OPC, petitioned the Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project. In that Agreement, the Parties agreed, and the Commission subsequently ordered,<sup>12</sup> that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility should be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset<sup>13</sup> or liability,<sup>14</sup> at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. The Commission also ordered that the regulatory asset or liability be amortized over four years. The Commission has ordered this same treatment for other CLU sister companies, including Sanlando Utilities Corporation, Utilities, Inc. of Pennbrooke, and Utilities, Inc. of Florida.<sup>15</sup> Therefore, consistent with the Commission's actions in Docket No. 110153-SU and subsequent dockets, staff recommends that CLU be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day

<sup>12</sup> See Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, pp. 2, 9.

<sup>13</sup> A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. The Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

<sup>14</sup> An example of a regulatory liability would be the deferral of past overearnings to future periods.

<sup>15</sup> See Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

commercial paper rate until the establishment of rates in CLU's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over four years.

Conclusion

Staff recommends that plant be reduced by \$14,801 for water and \$13,593 for wastewater. Corresponding adjustments should be made to reduce accumulated depreciation by \$13,658 for water and \$12,545 for wastewater and reduce depreciation expense by \$4,032 for water and \$3,703 for wastewater. Computer maintenance expense should be reduced by \$2,306 for water and \$2,118 for wastewater. In addition, consistent with the Commission's previous decisions, CLU should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in CLU's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over four years.

**Issue 4:** Should any additional test year plant adjustments be made for water?

**Recommendation:** Yes. Plant should be increased by \$24,256 for water and Material and Supplies (M&S) expense should be decreased by \$1,718, and accordingly, corresponding adjustments should be made to increase accumulated depreciation by \$3,141, depreciation expense by \$775, and property taxes by \$320. Accumulated deferred income taxes (ADITs) should also be increased by \$4,637. (Kelly, Springer)

**Staff Analysis:** Based on its review, staff recommends that additional adjustments be made to plant for water:

#### Supply Main Upgrade

In a letter dated December 13, 2013, OPC voiced its concern over a supply main upgrade CLU received Commission approval for in its 2010 limited proceeding. This improvement should have been recorded as an addition to water plant in NARUC Account No. 309.2. In response to staff's second data request, the Utility stated that the amount was neither expensed nor capitalized to plant. The Utility's response also included appropriate support documentation for the plant improvement. In response to a subsequent data request, the Utility confirmed that the improvement was recorded to a sister company and never to CLU. Therefore, staff increased plant by \$23,660 for water. Accordingly, staff also increased accumulated depreciation by \$3,042, depreciation expense by \$676, and property taxes by \$320. Due to tax timing differences between IRS and state regulatory depreciation, the additional plant investment gave rise to additional ADITs. Staff recommends \$4,637 in ADITs be recognized in the capital structure.

#### Golf Carts

In response to staff's first data request, the Utility cited the addition of two golf carts as the reason behind a spike in Miscellaneous expenses for September 2012. It only provided support documentation for one golf cart recorded in M&S expense. In response to a subsequent data request, the Utility confirmed that the golf cart had been recorded to M&S expense, not Miscellaneous expense, and should be recorded as plant for water. However, it failed to provide additional support documentation for the second golf cart as requested. Moreover, the Utility stated that the golf cart is also used for meter reading at three other systems.

While the Utility referenced two golf carts in its responses to staff data requests, documentation was only received for one golf cart and there is no record of a second golf cart in CLU's filing. Accordingly, staff recommends that the documented golf cart expense be removed from water M&S expense and capitalized to plant. Additionally, the capitalization should be adjusted based upon the appropriate allocation to the systems that utilize the golf cart. M&S expense should be decreased by \$1,718 and plant should be increased by \$596 for water. Consequently, corresponding adjustments should be made to increase accumulated depreciation and depreciation expense by \$99.

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Summary

Based on the above, staff recommends that plant should be increased by \$24,256 (\$23,660 + \$596) for water and M&S expense be decreased by \$1,718. Accordingly, corresponding adjustments should be made to increase accumulated depreciation by \$3,141 (\$3,042 + \$99), depreciation expense by \$775 (\$676 + \$99), and property taxes by \$320. ADITs should increase by \$4,637.



**Issue 5:** Should any adjustments be made to the Utility's pro forma plant additions?

**Recommendation:** Yes. The appropriate amount of pro forma plant additions for wastewater is \$108,338. This results in a decrease of \$1,662 from the Utility's requested amount. Corresponding adjustments should also be made to increase accumulated depreciation by \$1,667 and decrease depreciation expense by \$52. Additionally, pro forma property taxes should be decreased by \$704 for water and \$189 for wastewater. ADITs should be increased by \$20,740. (Kelly, Lee, Springer)

**Staff Analysis:** In its filing, CLU included \$110,000 for wastewater pro forma plant improvements for the rehabilitation of several tanks including the removal of several areas of corroded steel from one basin. While staff believes the Utility has provided reasonable documentation and justification for this project, staff made adjustments to reflect the difference between actual costs and estimated pro forma plant costs.

#### Tank Rehabilitation

Staff reviewed the supporting documentation and the prudence of this pro forma plant addition. Based on that information, staff believes that the pro forma addition is reasonable and prudent because it will help extend the life of the Utility's wastewater facility, protect nearby storm water ponds, and address several other maintenance issues.

The steel tank refurbishment project is designed to correct the severe corrosion and structural weld cracking in tanks used in the wastewater treatment plant. The Utility's estimated cost for the alternative, which is to replace these tanks, exceeds \$250,000. Based on an evaluation of three bids, Lehigh Environmental was selected based on its lowest bid amount of \$76,221. In addition to the Lehigh Environmental bid, the project included an additional \$15,779 to remove solids from the bottom of each tank. After the contractor was mobilized to empty the tanks, additional deteriorations were found that required more extensive refurbishment than originally planned. The change order associated with adding box steel work on the clarifier equipment added approximately \$15,000 to the estimate. Finally, the project estimate provided by the Utility included \$3,000 for contingency funding, bringing the total project cost to \$110,000.

Between December 2013 and March 2014, the Utility provided staff updated information consisting of actual invoices for services rendered totaling \$93,338. Additionally, on March 25, 2014, the Utility provided staff an updated anticipated completion date of the pro forma project. The final 10 percent of the project requires that the individual tanks be taken off line. The Utility anticipates this will be accomplished in April following the peak demand season. Staff believes that in the interest of rate stability for the ratepayers, costs to complete a project that is nearly complete should be included in pro forma. Accordingly, the final \$15,000 to complete the project should be included in the total recommended pro forma costs, bringing the total to \$108,338.

In total, pro forma plant should be reduced by \$1,662 to reflect adjustments made by the Utility and staff to account for the difference between actual costs and estimated pro forma plant costs. Table 5-1 reflects staff's recommended pro forma plant.

Table 5-1

Pro Forma Plant Adjustment				
<u>Project</u>	<u>Estimate</u>	<u>Actual Invoices</u>	<u>Staff Adjustments</u>	<u>Staff Recommended</u>
Steel Tank Rehabilitation	\$76,221	\$63,748	(\$12,473)	\$63,748
Cleaning/Vactoring EQ Basin	15,779	5,305	(10,474)	5,305
Additional Steel Work on Headworks Tank	10,000	17,945	7,945	\$17,945
Additional Steel Work on Clarifier #3	5,000	1,705	(3,295)	1,705
Contingency/Sewage Pump	3,000	4,634	1,634	\$4,634
Final Payment for Project Completion	<u>0</u>	<u>0</u>	<u>15,000</u>	<u>\$15,000</u>
Total	<u>\$110,000</u>	<u>\$93,338</u>	<u>(\$1,662)</u>	<u>\$108,338</u>

As a result of staff's adjustments to pro forma plant, corresponding adjustments should be made to increase accumulated depreciation by \$1,667 and decrease depreciation expense by \$52. In addition, pro forma property taxes should be decreased \$189 for wastewater. Due to tax timing differences between IRS and state regulatory depreciation, the additional plant investment gave rise to additional ADITs. Staff recommends \$20,740 in ADITs be recognized in the capital structure.

#### Filing Errors

Staff's adjustments to plant resulted in corresponding flow-through adjustments to accumulated depreciation, depreciation expense, and property taxes. However, two errors in the Utility's initial filing were also corrected in these corresponding adjustments. Although a decrease in plant would typically lead to a reduction in accumulated depreciation, the Utility understated the pro forma accumulated depreciation in its initial filing. Thus, the adjusted amount of pro forma plant resulted in a net increase to accumulated depreciation.

In addition, on MFR Schedule B-15, the Utility included an adjustment for property taxes associated with the pro forma change to net water plant. However, the pro forma plant additions discussed above are solely for the wastewater system. In response to staff's fifth data request, the Utility referred to the calculation of net plant on MFR Schedule A-1 as its basis for the adjustment. The only adjustments that affect net plant for water reflect a transportation reallocation and roll forward accumulated depreciation adjustments. Neither of these items impact property taxes. Thus, property taxes should be decreased by \$704 for water to remove this pro forma adjustment.

Summary

Based on the information above, staff recommends that the appropriate amount of pro forma plant additions is \$108,338 for wastewater. This results in a decrease of \$1,662 (\$110,000 - \$108,338) from the amount requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to increase accumulated depreciation by \$1,667 and decrease depreciation expense by \$52. In addition, pro forma property taxes should be decreased by \$704 for water and \$189 for wastewater. Finally, ADITs should increase by \$20,740.

**Issue 6:** What are the Used and Useful percentages of the Utility's water and wastewater systems?

**Recommendation:** The Utility's water and wastewater systems should continue to be 100 percent Used and Useful (U&U). The test year wastewater treatment cost of purchased power and chemicals should be reduced by 1 percent, or \$626 due to excessive infiltration and inflow. No adjustment should be made for excessive unaccounted for water. (Lee)

**Staff Analysis:** Based on Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., the Commission's Used and Useful (U&U) evaluation of water and wastewater system includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base. In simple terms, the formula-based method calculates the customer demand as a percentage of the capacity. The customer demand is based on the actual demand in the test period and the estimated demand over the five-year statutory growth period.

In the last limited proceeding in Docket No. 090349-WS, the Utility's water and wastewater systems were determined to be 100 percent U&U. In that proceeding, the Commission also considered the reduction in wastewater flow due to conservation. There has been no change in capacity. Based on this and the consideration of growth in demand, the treatment plants for the water and wastewater systems should continue to be 100 percent U&U by Commission practice.

For the same reason, staff recommends that the water distribution system and wastewater collection system should continue to be 100 percent U&U.

#### **Infiltration and Inflow (I&I)**

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Schedule F-6 of the MFRS indicated there were 498,586 gallons or 0.98 percent excessive I&I for the test year.

Based on MFR Schedule B-6, the test year cost of pumping and treating the wastewater is \$62,608, consisting of \$54,467 for purchased power and \$8,141 for chemicals. Because excessive I&I directly increase pumping and treatment costs, corresponding adjustments should be made to decrease purchased power and chemicals for wastewater by \$545 ( $\$54,467 \times 1$  percent), and \$81 ( $\$8,141 \times 1$  percent), respectively. The total I&I adjustment should be \$626.

#### **Excessive Unaccounted For Water (EUW)**

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10

percent of unaccounted water for the uses of water that is not metered, which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft.<sup>16</sup> The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year.

As discussed in Issue 1, CLU converted to chloramine disinfection in July 2011. Unfortunately, the use of chloramine requires increased flushing of the water distribution system to reduce high bacterial concentrations and any chemical contamination. Flushing is also used in response to customer complaints about taste, odor, and discoloration of the treated water. However, it appears the switch to the new system did not eliminate customer complaints and CLU increased the periods of flushing.

Typically, water utilities have three options when it comes to flushing: spot flushing, to handle localized complaints about water quality; stagnant flushing, instituted in areas of low water usage, and system wide flushing, the most comprehensive measure that can be used to maintain water quality system wide. Due to the high number of seasonal residents in Cypress Lakes, CLU instituted system wide flushing by using a unidirectional flushing methodology. During the 2012 test year, 74.6 million gallons of treated water were metered at the water treatment facilities. Of those, 46.2 million gallons, or 62 percent, were metered and billed to customers. The remaining 38 percent of the treated water was not producing revenues. According to data provided by CLU, 23.9 million gallons of water were estimated for the use of flushing in the test year of 2012, in order to maintain water quality. Therefore, 4.5 million gallons, or 6 percent, is unaccounted for water. Rule 25-30.4325(1)(e), F.A.C., provides unaccounted for water can be no more than of 10 percent of the amount produced. Therefore, there should be no adjustment for EUW.

At the customer meeting, there were some concerns about the cost associated with the CLU flushing program. Staff estimates that the cost for purchased power and chemicals associated with the 23.9 million gallons of flushing is approximately \$6,410/year. There were also concerns that CLU was violating its Consumptive Use Permit. Per review of the permit and conference with FDEP staff confirmed CLU was well below the permitted annual average usage of 331,200 gpd.

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<sup>16</sup> See Order No. PSC-93-0455-NOR-WS, pp. 101, 102, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

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Summary

Staff recommends that the Utility's water and wastewater systems should continue to be 100 percent U&U. The test year wastewater treatment cost of purchased power and chemicals should be reduced by 1 percent, or \$626 due to excessive infiltration and inflow. Staff recommends that no adjustments should be made for EUW.

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowances are \$26,177 for water and \$34,875 for wastewater. As such, the working capital allowances should be decreased by \$2,875 and \$2,522 for water and wastewater, respectively. (Kelly, Springer)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. Staff has recommended adjustments to CLU's O&M expense, which are reflected on Schedule No. 3-C. As a result, staff recommends working capital allowances of \$26,177 for water and \$34,875 for wastewater. This reflects a decrease of \$2,875 to the Utility's requested working capital allowance for water and a decrease of \$2,522 for wastewater.

**Issue 8:** What is the appropriate rate base for the test year ended December 31, 2012?

**Recommendation:** Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2012, is \$721,607 for water and \$1,762,598 for wastewater. (Kelly, Springer)

**Staff Analysis:** Based on staff's recommended adjustments, the appropriate rate base is \$721,607 for water and \$1,762,598 for wastewater. In its MFRs, the Utility requested a rate base of \$717,721 for water and \$1,951,812 for wastewater. Staff's adjustments recommended in the preceding issues result in an increase of \$3,886 for water and a decrease of \$189,214 for wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.



**Issue 9:** What is the appropriate return on equity?

**Recommendation:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.29 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Kelly, Springer)

**Staff Analysis:** The Utility requested an ROE of 10.22 percent. Although CLU correctly utilized the current leverage formula, audit staff determined the equity balances used in the filing did not match UI's audited financial statements. Audit Finding No. 5 decreased equity by \$5,194,723 to reflect the revised simple average equity balance of \$170,132,500. The Utility agreed to this audit adjustment and provided a revised MFR Schedule D-2. This adjustment results in a lower equity ratio for the test year and thus a higher recommended ROE.

Based on the Commission leverage formula currently in effect and an equity ratio of 48.56 percent, the appropriate ROE is 10.29 percent.<sup>17</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>17</sup> See Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 130006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), F.S.

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**Issue 10:** 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, 2012?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2012, is 8.18 percent. (Kelly, Springer)

**Staff Analysis:** In its filing, the Utility requested an overall cost of capital of 8.27 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure, and ADITs totaling \$25,377 as discussed in Issues 2 and 3, staff recommends a weighted average cost of capital of 8.18 percent. Schedule No. 2 details staff's recommended overall cost of capital.

**Issue 11:** What is the appropriate amount of test year revenues for the Utility's water and wastewater systems?

**Recommendation:** The appropriate test year revenues for Cypress Lakes' water and wastewater systems are \$313,273 and \$667,342, respectively. (Thompson)

**Staff Analysis:** Cypress Lakes recorded total test year revenues of \$317,304 for water and \$667,852 for wastewater. The water revenues included \$313,558 of service revenues and \$3,746 of miscellaneous revenues. The wastewater revenues included \$666,046 of service revenues and \$1,806 of miscellaneous revenues.

Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff recommends that service revenues should be decreased by \$3,031 and \$510 for water and wastewater, respectively, to reflect total test year service revenues of \$310,527 for water and \$665,536 for wastewater. Staff also made an adjustment to water miscellaneous revenues. The Utility improperly recorded \$1,000 for meter installations as water miscellaneous revenues. Staff decreased miscellaneous revenues and increased CIAC for water by \$1,000 to properly record the meter installation charges. The \$1,000 adjustment to CIAC is included in staff's total CIAC adjustment of \$200,190 addressed in Issue 2. Based on the above adjustments, the appropriate test year revenues for Cypress Lakes' water and wastewater systems are \$313,273 and \$667,342, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

**Issue 12:** Should the audit adjustments to net operating income to which the Utility agrees be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to net operating income as set forth in staff's analysis below. (Kelly, Springer)

**Staff Analysis:** In its response to the staff's audit report and other correspondence, CLU agreed to the audit adjustments as set forth in the table below.

Table 12-1

Audit Adjustments to Net Operating Income					
<u>CLU Audit Findings</u>	Water- Operating Revenues	Water - O&M Exp.	Wastewater - O&M Exp.	Water - Depr. Exp.	Wastewater - Depr. Exp.
Finding No. 2 - Reflect retirements not recorded.	\$0	\$0	\$0	(\$157)	(\$699)
Finding No. 4- Correct expenses misclassified as plant.	0	0	0	(68)	(97)
Finding No. 5 - Correct costs associated with sludge equipment.	0	0	0	0	(130)
Finding No. 6 - Correct misclassification of wastewater treatment additions and retirements.	0	0	0	0	24,204
Finding No. 8- Correct accumulated depreciation understatement.	0	0	0	0	3,438
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of- Construction.	1,000	0	0	(107)	(71)
Finding No. 10 - Reflect appropriate accumulated amortization of Contributions-in-Aid-of-Construction.	0	0	0	(1,271)	0
Finding No. 11 - Correct non-recurring miscellaneous expense.	0	(9,951)	(9,137)	0	0
Subtotal - CLU Adjustments	<u>\$1,000</u>	<u>(\$9,951)</u>	<u>(\$9,137)</u>	<u>(\$1,603)</u>	<u>\$26,645</u>
<u>Affiliate Audit Findings</u>					
Finding No. 1 - Correct reallocated transportation accounts.	\$0	(\$2,043)	(\$1,877)	(\$1,716)	(\$1,577)
Finding No. 4 - Reflect prior Commission-ordered adjustments.	0	0	0	(671)	(617)
Subtotal - Affiliate Adjustments	<u>\$0</u>	<u>(\$2,043)</u>	<u>(\$1,877)</u>	<u>(\$2,387)</u>	<u>(\$2,194)</u>
Total Audit Adjustments	<u>\$1,000</u>	<u>(\$11,994)</u>	<u>(\$11,014)</u>	<u>(\$3,990)</u>	<u>\$24,451</u>

**Issue 13:** Should any adjustments be made to the Utility's salaries and wages, pensions and benefits, and payroll taxes?

**Recommendation:** Yes. Salaries and Wages expense should be reduced by \$1,967 for water and \$1,806 for wastewater. Corresponding adjustments should also be made to reduce payroll taxes for water and wastewater by \$282 and \$259, respectively. (Kelly, Springer)

**Staff Analysis:** In its MFRs, the Utility reflected water and wastewater salaries and wages of \$109,835 and \$91,676, respectively. In response to staff's first data request, CLU identified three new positions that were not included in its 2006 rate case. A Cross Connection Technician was hired in 2007 for the purpose of monitoring several UI systems in compliance with DEP regulations regarding a cross connection control program. Staff verified the allocation of the technician's time and salary expense as well as the DEP regulations necessitating this position.

The Utility also hired one full-time and one part-time meter reader in 2010 to replace contract meter readers. When the field technicians are not reading meters, they are performing maintenance on the water and wastewater facilities. While verifying the allocation of time and salary expense for the two meter readers, staff discovered that the Utility's test year O&M expenses reflected the time and expense of two full-time equivalents (FTEs). Staff decreased Salaries and Wages expense for water and wastewater by \$1,967 and \$1,806, respectively, to reflect the expense associated with 1.5 FTEs for field technicians. Corresponding adjustments should be made to reduce payroll taxes by \$282 for water and \$259 for wastewater. A corresponding adjustment to pension and benefits was not made as these particular employees do not receive these benefits as part of their compensation.

**Issue 14:** What is the appropriate amount of rate case expense for the current case?

**Recommendation:** The appropriate amount of rate case expense is \$118,428. This expense should be recovered over four years for an annual expense of \$29,607. Therefore, annual rate case expense for water and wastewater should be increased by \$868 and \$798, respectively, from the amount requested in the Utility's initial filing. (Kelly, Lee, Springer)

**Staff Analysis:** In its filing, CLU requested \$111,765 for current rate case expense with a four-year amortization amount of \$27,941. On January 29, 2014, and March 28, 2014, staff requested updates of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The Utility submitted a revised estimated rate case expense, as of February 14, 2014, through completion of the PAA process, of \$138,801. On March 25, 2014, the Utility submitted additional documentation for water testing in the amount of \$2,200. On April 14, 2014, the Utility submitted updated additional documentation of rate case expense totaling \$146,115. The following table illustrates the Utility's requested rate case expense:

Table 14-1

Rate Case Expense: Utility Total				
Firm/Vendor/Description	MFR Estimated	Actual	Additional Estimated	Utility Revised Total
Friedman, Friedman, and Long, LLP	\$45,500	\$32,123	\$7,595	\$39,718
M&R Consultants	20,250	21,450	750	22,200
Public Service Commission-Filing Fee	4,000	4,000	0	4,000
Water Service Corp. (WSC)	25,515	52,662	5,040	57,702
Customer Notices, Postage	1,300	1,539	3,511	5,050
Travel, Hotel, Rental Car, Airfare	3,200	0	3,200	3,200
Fed Ex and other miscellaneous	12,000	45	45	12,045
Advanced Environmental Laboratories	0	2,200	0	2,200
Total	<u>\$111,765</u>	<u>\$114,019</u>	<u>\$20,141</u>	<u>\$146,115</u>

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

#### Legal Fees

The first adjustment to rate case expense relates to CLU's legal fees. The Utility included in its MFRs \$45,500 in legal fees to complete the rate case. The Utility provided support documentation detailing this expense through April 14, 2014. The actual fees and costs totaled \$32,123 and an estimated \$7,595 to complete the rate case, totaling \$39,718. The

Utility's actual expenses included filing costs of \$4,000 which were also included under "Public Service Commission – Filing Fee." As such, rate case expense should be decreased by \$4,000 to avoid double recovery of this fee.

### Filing Fee

The Utility included \$4,000 in its MFR Schedule B-10 for the filing fee. According to the documentation provided by Friedman, Friedman, and Long, LLP (FFL), the \$4,000 filing fee was paid as part of the legal fees and also included in FFL's invoices. Staff previously recommended reducing FFL's legal fees by \$4,000 to avoid double recovery of this fee. Accordingly, no additional adjustment is necessary.

### WSC In-House Employee Fees

The second adjustment to rate case expense is related to the work performed by WSC employees. The Commission has previously disallowed WSC In-House Employee fees in several dockets involving the Utility's sister companies.<sup>18</sup> However, by Order No. PSC-14-0025-PAA-WS, the Commission allowed the inclusion of this expense for its sister company, Utilities, Inc. of Florida, based on the reduction of salaries prior to any allocation. Staff verified that the Utility used this same methodology for requested rate case expense in the instant case.

CLU originally estimated \$25,515 in expense for in-house employees. Staff requested a thorough breakdown of employee activities related to work on the rate case. The Utility provided the actual entries of employee time capitalized to the rate case complete with amounts and hours. However, the actual descriptions of the activities were vague. Without a specific breakdown of employee tasks, staff compared various events of the case with the timesheets provided. CLU recorded 81.5 hours, totaling \$3,577, in the beginning half of October which immediately followed MFRs being filed and reflected a period with no outstanding audit or data requests. The Utility also recorded an expense of \$168 for an employee with no work description other than the employee's name. Based on the lack of specific work descriptions, staff recommends rate case expense be decreased by \$3,745 to remove unsupported expenses.

In addition, staff used the breakdown of hours and expense amounts to calculate the hourly compensation for each employee working on the rate case. Staff then compared that hourly rate to the total hourly compensation (including salary, pensions and benefits, and payroll taxes) the employee received as a WSC employee. Based on this review of confidential data, it was determined that 2 of the 12 WSC employees had higher hourly rates for rate case work than their respective WSC compensation. It would be imprudent for the hourly compensation received while working on a rate case to exceed the same employee's total hourly compensation. Staff adjusted the total hours to remove the unsupported hours discussed above and limited each

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<sup>18</sup> See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

employee to the total hourly compensation received as a WSC employee. That adjustment further decreased rate case expense by \$2,754.

The Utility provided updates of actual and estimated rate case expense through April 14, 2014. The Utility reflected \$52,662 of actual expense for WSC In-House employees, an increase of \$6,438 from the previous estimate, and estimated expense to completion of \$5,040, totaling \$57,702. Using the aforementioned methodology, the hourly rate based on the most recent estimate to complete also exceeded the average hourly compensation for these WSC employees. Staff utilized the average of the correct hourly rates to recalculate the estimated amount as \$4,692, which resulted in a \$348 decrease from the original estimate. In total, the adjustments to expenses for WSC In-House employees results in a decrease of \$6,847 ( $\$3,745 + \$2,754 + \$348$ ) to rate case expense.

### Customer Notices and Postage

The third adjustment relates to customer notices and postage. In its revised rate case expense schedule, CLU reflected actual invoices of \$1,539 incurred for customer noticing and postage and \$3,511 as an estimate to complete. The Utility is responsible for sending out four notices: the initial notice, the interim notice, customer meeting notice, and notice of the final rate increase. The interim notice and initial notice were not combined in this docket. The invoices provided by the Utility reflect the actual cost associated with sending two of these notices, the interim notice and customer meeting notice. The actual cost of the initial notice was not provided.

The Commission has historically approved adjustments to this expense, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.<sup>19</sup> Staff estimated the cost of postage for the initial notice and the final notice at approximately \$860 (1,264 customers x \$0.34 pre-sorted rate x 2 notices), the cost of copies at approximately \$885 (1,264 customers x \$0.10 per copy x 7 total pages), and the cost of envelopes at approximately \$126 (1,264 customers x \$0.05 x 2 notices). Based on these components, staff believes the total cost for these notices and postage is \$1,871 ( $\$860 + \$885 + \$126$ ).

As such, rate case expense should be decreased by \$1,640 to allow for adequate expenses related to mailing notices.

### WSC Travel Expense

In its MFRs, CLU estimated \$3,200 for travel expenses. The Utility provided no support documentation for this expense nor a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, \$3,200 of rate case expense associated with WSC travel expense should be removed.

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<sup>19</sup> See Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.



WSC FedEx Expense

The final adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The Utility estimated \$12,045 of FedEx and other miscellaneous costs in its initial filing. Staff made multiple requests for support documentation, but the Utility failed to provide more than a journal entry of \$45 for FedEx expense. Based on the lack of support documentation, rate case expense should be decreased by \$12,000 to reflect the removal of this expense.

Water Testing Fees

As discussed in Issue 1, in an effort to address water quality concerns raised at the customer meeting, engineering staff requested that CLU conduct tests of 16 inorganic and 14 secondary contaminants regulated in Florida. Samples were collected by Advanced Environmental Laboratories, Inc. from CLU's water supply at the point of entry and at seven customer residences on January 15, 2014. CLU provided test results to staff on March 9, 2014. Since this testing was done at the request of Commission staff, staff believes the \$2,200 (\$275 x 8) testing expense is reasonable and should be included in CLU's rate case expense.

Summary

Based upon the adjustments above, staff recommends that CLU's revised rate case expense of \$146,115 be decreased by \$27,687 for a total of \$118,428. A breakdown of rate case expense is as follows:

Table 14-2

Rate Case Expense: Total with Staff Adjustments				
Firm/Vendor/Description	MFR Estimated	Utility Revised Actual and Estimated	Staff Adjustments	Total
Friedman, Friedman, and Long, LLP	\$45,500	\$39,718	(\$4,000)	\$35,718
M&R Consultants	20,250	22,200	0	22,200
Public Service Commission-Filing Fee	4,000	4,000	0	4,000
Water Service Corp. (WSC)	25,515	57,702	(6,847)	50,855
Customer Notices, Postage	1,300	5,050	(1,640)	3,410
Travel, Hotel, Rental Car, Airfare	3,200	3,200	(3,200)	0
Fed Ex and other miscellaneous	12,000	12,045	(12,000)	45
Advanced Environmental Laboratories	<u>0</u>	<u>2,200</u>	<u>0</u>	<u>2,200</u>
Total	<u>\$111,765</u>	<u>\$146,115</u>	<u>(\$27,687)</u>	<u>\$118,428</u>

In its MFRs, the Utility requested total rate case expense of \$111,765. When amortized over four years, this represents an annual expense of \$27,941. The recommended total rate case expense of \$118,428 should be amortized over four years, pursuant to Section 367.081 (6), F.S. Based on the above, staff recommends that rate case expense be increased by \$6,663. As a result, annual rate case expense should be increased by \$868 for water and \$798 for wastewater from the respective levels of expense included in the MFRs.

As addressed in Issue 17, staff has recommended a revenue decrease of \$8,134 for the Utility's wastewater system. As mentioned previously, the Commission has broad discretion with respect to the allowance of rate case expense.<sup>20</sup> However, the First District Court of Appeals found that whether a rate increase is granted should not be the sole criteria the Commission considers when addressing rate case expense.<sup>21</sup> In addition, staff notes that, in evaluating overearning cases, the Commission allows utilities to recover the rate case expense associated with overearnings investigations.<sup>22</sup> Staff believes the Utility's wastewater customers have received a benefit from the rate case expense through the recommended rate reduction. Further, staff notes that this recommended allowance for rate case expense for CLU's wastewater system is consistent with the Commission's decisions in two prior rate cases involving CLU's sister company, Utilities Inc. of Florida.<sup>23</sup>

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<sup>20</sup> See Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988)

<sup>21</sup> See Florida Crown Utility Services, Inc. v. Utility Regulatory Board of the City of Jacksonville, 274 So.2d 597 (Fla. 1st DCA 1973)

<sup>22</sup> See Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, in Docket No. 960234-WS, In re: Investigation of rates of Gulf Utility Company in Lee County for possible overearnings.

<sup>23</sup> See Order Nos. PSC-10-0585-PAA-WS, p. 29, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-07-0505-SC-WS, p. 62, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for rate increase in Marion, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

**Issue 15:** Should further adjustments be made to the Utility's test year O&M expense?

**Recommendation:** Yes. O&M expense should be reduced by \$5,881 for water and \$5,401 for wastewater to reflect the appropriate level of contractual services-engineering, miscellaneous, and contractual services-other expenses. (Kelly, Springer)

**Staff Analysis:** In its filing, CLU recorded contractual services-engineering expense of \$1,690 for water and \$1,553 for wastewater, miscellaneous expense of \$30,094 for water and \$45,290 for wastewater, and contractual services-other of \$2,598 for water and \$2,388 for wastewater. Staff believes adjustments to these accounts are necessary as discussed below.

#### Contractual Services-Engineering Expense

MFR Schedules B-7 and B-8 indicate that expenses for engineering contractual services increased 100 percent since the Utility's last rate case in 2006 for both water and wastewater systems. In response to staff's first data request, the Utility stated that the reason for the increase was due to the updating of water and wastewater maps to reflect the addition of Phase 12.<sup>24</sup> Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. Staff asked in subsequent data requests for more information regarding the frequency of map updates, and the Utility did not provide a specific answer to justify an alternative amortization period. Therefore, Contractual Services-Engineering expense should be reduced by \$1,090 (4/5 of the total, \$1,363) for water and \$1,002 (4/5 of the total, \$1,252) for wastewater to properly reflect the annual amount over the five-year amortization period based upon actual invoices provided of \$2,615.

#### Miscellaneous and Contractual Services-Other Expense

MFR Schedules B-5 and B-6 indicate above average increases to monthly expenses for the months of October and November in the test year, which ended December 31, 2012. In response to staff's first data request, the Utility stated that the increase in these months was due to the use of a contract operator following the termination of a salaried operator. However, the support documentation it provided was for a different contractual expense. While examining support documentation for other items in question, staff noted that this expense was actually recorded as a miscellaneous expense. After further examination of Utility personnel, staff determined that the test year O&M expenses included costs associated with water and wastewater operators beyond the normal staffing needs due to the various shifts of employment.

Using excerpts of the general ledger submitted for other data inquiries, staff was able to calculate the total expense for contract operators in the test year as \$13,121 for water and \$12,048 for wastewater. After verifying full year salaries for operators employed as CLU personnel, Commission staff calculated the normal number of hours and expense the Utility needed for a contract operator on Sundays year round, based on the Utility's response to staff's fourth data request. The allowance for expenses associated with a contractor operator amounts to \$8,783 for water and \$8,065 for wastewater. Adjusting expenses for that allowance results in

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<sup>24</sup> Phase 12 is a 120-lot expansion to Cypress Lakes Estates.

an overall decrease of \$4,338 (\$13,121 - \$8,783) for water and \$3,983 (\$12,048 - \$8,065) for wastewater.

Due to significant increase in Account Nos. 675 and 775 – Miscellaneous Expense, staff also questioned the criteria used in classifying expenses to this account. Per the Utility, the decision to classify the expense as Miscellaneous is typically made by the originator of the purchase order. However, expenses as specific as contractual labor have NARUC accounts that are clearly defined. As such, Miscellaneous expense should be decreased by \$13,121 for water and \$12,048 for wastewater to reflect the removal of expenses associated with the contract operator. Accordingly, Contractual Services-Other should increase by \$8,783 for water and \$8,065 for wastewater.

In addition, staff examined additional UI accounts that were recorded as Miscellaneous expense based on concerns voiced by the Office of Public Counsel (OPC) in a letter dated January 28, 2014. OPC questioned the dramatic increase in miscellaneous expenses since the last rate case and questioned the reasonableness of allocating certain expenses to a utility the size of CLU. After further analysis and support documentation from the Utility, staff determined that four of the subaccounts OPC questioned were not reasonable expenses to be borne by the ratepayers and should be removed from Miscellaneous expenses. Miscellaneous expenses should not include the following UI accounts: Account No. 6205 – Travel Entertainment, Account No. 6207 – Travel Other, Account No. 5870 – Holiday Events/Picnics, and Account No. 5875 – Kitchen Supplies. The removal of these accounts resulted in a decrease to Miscellaneous expense of \$396 for water and \$364 to wastewater.

While analyzing the subaccounts of the Utility's Miscellaneous expense, staff further examined an annual leadership meeting held at the Rosen Center in Orlando, Florida. In the instant case, a majority of the expense for the meeting, \$18,993 for the Rosen Center, was recorded in Account No. 6205 – Travel Entertainment. The allocable portion of this expense to CLU was removed in the aforementioned adjustment to Miscellaneous expense. When asked to provide a breakdown of the meeting's expenses, the Utility stated that it did not have a tracking instrument related to this expense and only resubmitted the Rosen Center invoice for the expense mentioned above. Staff believes that the costs associated with this meeting should not be borne by the ratepayers, especially in light of the minimal accountability of the event's expenses. Staff calculated an identifiable amount of additional expenses associated with the leadership meeting based on expense reports and other forms of support documentation provided by the Utility for other requests. Excluding the expense for the Rosen Center, the amount totaled \$12,022. As such, Miscellaneous Expense should be reduced by \$57 for water and \$52 for wastewater to reflect the removal of the Utility's allocation of the meeting's expenses. The expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed expense support documentation warrants and adjustment in this instance.

### Summary

Based on the above, staff recommends that O&M expense be reduced by \$5,881 [(\$1,090) + (\$13,121) + \$8,783 + (\$396) + (\$57)] for water and \$5,401 [(\$1,002) + (\$12,048) + \$8,065 + (\$364) + (\$52)] for wastewater to reflect the appropriate level of Contractual Services-Engineering Expense, Miscellaneous Expense, and Contractual Services-other Expense.

**Issue 16:** Should any further adjustments be made to property taxes?

**Recommendation:** Yes. Property taxes should be decreased by \$10,318 for water and \$9,483 for wastewater. (Kelly, Springer)

**Staff Analysis:** In its initial filing, CLU reflected test year expenses for water and wastewater property taxes of \$17,657 and \$16,228, respectively. In staff's review of the Utility's audit, Highlands County property tax records indicated that the Utility's assessed value fell significantly in 2013 resulting in a property tax decrease of \$19,802. In response to staff's fifth data request, the Utility had no information as to why the assessed value decreased. Therefore, property taxes should be decreased by \$10,318 for water and \$9,483 for wastewater to reflect the known and measurable change to the Utility's level of property taxes.

**Issue 17:** What is the appropriate revenue requirement for the test year?

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

	<u>Test Year Revenue</u>	<u>\$ Increase/ (Decrease)</u>	<u>Revenue Requirement</u>	<u>% Increase/ (Decrease)</u>
Water	\$313,273	\$60,781	\$374,054	19.40%
Wastewater	\$667,342	(\$8,134)	\$659,208	(1.22%)

(Kelly, Springer)

**Staff Analysis:** In its filing, CLU requested revenue requirements to generate annual revenue of \$417,907 and \$694,202 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$100,603, or approximately 31.71 percent, for water and \$26,350, or approximately 3.95 percent, for wastewater.

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 water revenue requirement of \$374,054 and a wastewater revenue requirement of \$659,208. The recommended water revenue requirement exceeds staff's adjusted test year revenue by \$60,781, or 19.40 percent, for water. The recommended wastewater revenue requirement falls short of staff's adjusted test year revenue by \$8,134 or 1.22 percent. These recommended revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.18 percent return on its investment on water and wastewater rate base.

**Issue 18:** What are the appropriate rate structures and rates for Cypress Lakes' water and wastewater systems?

**Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date the notice was given within ten days of issuance. (Thompson)

**Staff Analysis:**

**Water Rates**

The Cypress Lakes water system is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to approximately 1,447 residential customers and 44 general service customers. Approximately 22 percent of the residential customer bills during the test year had zero gallons, indicating a moderately seasonal customer base. The average residential water demand is 2,388 gallons per month. The average water demand, excluding zero gallon bills, is 3,080 per month. Currently, the Utility's residential water rate structure consists of a monthly BFC and a three-tier inclining block rate structure with rate blocks set at: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) usage in excess of 12,000 gallons. General service customers are billed based on a BFC and gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement where appropriate water conserving rate structures consistent with Commission practice.

Due to the modest revenue increase, staff recommends that the recommended revenue increase be applied across-the-board to the service rates in effect since August 10, 2011. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 19.57 percent increase in the service rates. Based on the foregoing, the appropriate monthly water rates are shown on Schedule No. 4-A.

### Wastewater Rates

Cypress Lakes provides wastewater service to all 1,447 residential water customers and 5 of the general service water customers. The Utility also provides reuse service to a golf course. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. There is no charge to the golf course for reuse.

Due to the recommended revenue decrease, staff recommends that the recommended revenue decrease be applied across-the-board to the service rates in effect since August 10, 2011. To determine the appropriate percentage decrease to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 1.22 percent decrease in the service rates.

The golf course is the Utility's only option for disposal of treated wastewater. Therefore, staff recommends the reuse service continue at no charge. The appropriate monthly wastewater rates are shown on Schedule No. 4-B.

### Summary

Based on the foregoing, staff recommends no change to the water and wastewater rate structures. Staff recommends that the rates for Cypress Lakes, in effect as of August 10, 2011, should be increased by 19.57 percent for water and decreased by 1.22 percent for wastewater. The reuse service should continue at no charge. The recommended monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date the notice was given within ten days of issuance.



**Issue 19:** Should Cypress Lake’s request to implement a \$5.25 late payment charge be approved?

**Recommendation:** Yes. The Utility’s request to implement a \$5.25 late payment charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge 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 issuance. (Thompson)

**Staff Analysis:** Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility’s request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

The Utility’s requested charge is based on an aggregate of all Utilities, Inc.’s (the parent company) systems in Florida. In its cost justification, the Utility states that approximately 42 percent of the parent company’s customer base is consistently delinquent in rendering payment each month. The late payment notices are processed by the same parent company staff for all systems in Florida. The Utility indicated that it takes its parent company two hours per day for three days to process late payment notices. The parent company employee’s salary is \$39 per hour, which results in total labor cost of \$234 (3 days x 2 hours x \$39). The parent company’s costs are allocated on a per equivalent residential connection basis. The average allocation of the labor costs to the Florida systems is 1.94 percent, which results in \$4.54 (\$234 x 1.94 percent). Staff believes the cost justification provided by the Utility is reasonable in support of the requested \$5.25 late payment charge. The cost basis for late payment charge, including labor, is shown in the table below.

Table 19-1

Cost Basis for Late Payment Charge	
Labor	\$4.54
Printing	\$ .20
Postage	\$ .49
Total Cost	\$5.23

Based on staff's research, since the late 1990s, the Commission has approved late payment charges ranging from \$2.00 to \$7.00.<sup>25</sup> The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those that incurred cost.

Based on the above, staff recommends that Cypress Lake's request to implement a \$5.25 late payment charge should be approved. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge 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 issuance.

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<sup>25</sup> See Order No. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.; Order No. PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; Order No. PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; Order No. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater; Order No. PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.

**Issue 20:** What are the appropriate initial customer deposits for Cypress Lakes?

**Recommendation:** The appropriate initial customer deposits should be \$43 and \$84 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

**Staff Analysis:** Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.<sup>26</sup> Currently, the Utility's existing initial deposits for residential 5/8" x 3/4" meters are \$17 for water and \$43 for wastewater. Based on staff's recommended rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered by those incurring cost.<sup>27</sup>

Staff recommends the appropriate initial customer deposits should be \$43 and \$84 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

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<sup>26</sup> See Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

<sup>27</sup> See Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

**Issue 21:** In determining whether any portion of the water interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The appropriate 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. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. This results in a refund of 15.78 percent for water. The refund should be made with interest in accordance with Rule 25-30.0360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as Contributing in Aid of Construction (CIAC) pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (Kelly, Springer)

**Staff Analysis:** By Order No. PSC-13-0673-FOF-WS, the Commission authorized the collection of interim water rates, and required the Utility to hold \$49,622 of the current water revenues subject to refund, pursuant to Section 367.082, F.S.<sup>28</sup> The Utility did not request interim rates for its wastewater system.

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 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 12-month period, which ended December 31, 2012. CLU's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, staff calculated revised interim revenue requirements 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, staff calculated an adjusted interim revenue requirement of \$339,468 for water. The adjusted water interim revenue requirement of \$339,468 is lower than the interim revenue requirement of \$402,356 granted in the Interim Order. This results in a 15.78 percent required refund for water. Further, the corporate undertaking for CLU's funds should be released upon staff's verification that the required refunds have been made.

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<sup>28</sup> See Order No. PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in by Cypress Lakes Utilities, Inc.

**Issue 22:** What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. CLU should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Thompson, Kelly)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$16,327 for water and \$14,992 for wastewater. Using CLU's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. CLU also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

**Issue 23:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, CLU 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. (Kelly)

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

**Issue 24:** Should this docket be closed?

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

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

<b>Cypress Lakes Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/12</b>			<b>Schedule No. 1-A Docket No. 130212-WS</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	\$1,738,817	(\$23,430)	\$1,715,387	\$167,564	\$1,882,951
2 Land and Land Rights	1,365	0	1,365	0	1,365
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(870,888)	37,154	(833,734)	24,866	(808,868)
5 CIAC	(347,273)	0	(347,273)	(200,190)	(547,463)
6 Amortization of CIAC	140,254	12,670	152,924	14,521	167,445
7 Working Capital Allowance	<u>26,891</u>	<u>2,161</u>	<u>29,052</u>	<u>(2,875)</u>	<u>26,177</u>
8 Rate Base	<u>\$689,166</u>	<u>\$28,555</u>	<u>\$717,721</u>	<u>\$3,886</u>	<u>\$721,607</u>



<b>Cypress Lakes Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/12</b>			<b>Schedule No. 1-B Docket No. 130212-WS</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	\$3,760,608	\$288,493	\$4,049,101	\$394,798	\$4,443,899
2 Land and Land Rights	2,610	0	2,610	0	2,610
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,524,841)	(85,602)	(1,610,443)	(186,157)	(1,796,600)
5 CIAC	(846,329)	0	(846,329)	(466,036)	(1,312,365)
6 Amortization of CIAC	319,476	0	319,476	70,703	390,179
7 Working Capital Allowance	<u>35,411</u>	<u>1,986</u>	<u>37,397</u>	<u>(2,522)</u>	<u>34,875</u>
8 Rate Base	<u>\$1,746,935</u>	<u>\$204,877</u>	<u>\$1,951,812</u>	<u>(\$189,214)</u>	<u>\$1,762,598</u>

<b>Cypress Lakes Utilities, Inc.</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 130212-WS</b>	
<b>Test Year Ended 12/31/12</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Plant In Service</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$158,109	\$410,053	
2 Phoenix Project adjustment. (Issue 3)	(14,801)	(13,593)	
3 Test year plant adjustments. (Issue 4)	24,256	0	
4 Appropriate pro forma amount. (Issue 5)	<u>0</u>	<u>(1,662)</u>	
5 Total	<u>\$167,564</u>	<u>\$394,798</u>	
<u>Accumulated Depreciation</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$14,348	(\$197,036)	
2 Phoenix Project adjustment. (Issue 3)	13,658	12,545	
3 Test year plant adjustments. (Issue 4)	(3,141)	0	
4 Appropriate pro forma amount. (Issue 5)	<u>0</u>	<u>(1,667)</u>	
5 Total	<u>\$24,866</u>	<u>(\$186,157)</u>	
<u>CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>(\$200,190)</u>	<u>(\$466,036)</u>	
<u>Accumulated Amortization of CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>\$14,521</u>	<u>\$70,703</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$2,875)</u>	<u>(\$2,522)</u>	

Cypress Lakes Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/12							Schedule No. 2 Docket No. 130212-WS		
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	\$180,000,000	\$0	\$180,000,000	(\$178,672,878)	\$1,327,122	49.71%	6.64%	3.30%	
2 Short-term Debt	250,000	0	250,000	(248,157)	1,843	0.07%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	175,327,223	0	175,327,223	(174,034,553)	1,292,670	48.42%	10.22%	4.95%	
5 Customer Deposits	13,366	0	13,366	0	13,366	0.50%	3.00%	0.02%	
6 Deferred Income Taxes	<u>34,531</u>	<u>0</u>	<u>34,531</u>	<u>0</u>	<u>34,531</u>	<u>1.29%</u>	0.00%	<u>0.00%</u>	
7 <b>Total Capital</b>	<u>\$355,625,120</u>	<u>\$0</u>	<u>\$355,625,120</u>	<u>\$352,955,588</u>	<u>\$2,669,532</u>	<u>100.00%</u>		<u>8.27%</u>	
<b>Per Staff</b>									
11 Long-term Debt	\$180,000,000	\$0	\$180,000,000	-\$178,761,446	\$1,238,554	49.86%	6.64%	3.31%	
12 Short-term Debt	250,000	0	\$250,000	-\$248,280	1,720	0.07%	0.00%	0.00%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	175,327,223	-5,194,723	\$170,132,500	-\$168,961,843	1,170,657	47.12%	10.29%	4.85%	
15 Customer Deposits	13,366	0	\$13,366	\$0	13,366	0.54%	3.00%	0.02%	
16 Deferred Income Taxes	<u>34,531</u>	<u>25,377</u>	<u>\$59,908</u>	<u>\$0</u>	<u>59,908</u>	<u>2.41%</u>	0.00%	<u>0.00%</u>	
20 <b>Total Capital</b>	<u>\$355,625,120</u>	<u>-\$5,169,346</u>	<u>\$350,455,774</u>	<u>-\$347,971,569</u>	<u>\$2,484,205</u>	<u>100.00%</u>		<u>8.18%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>9.29%</u>	<u>11.29%</u>		
OVERALL RATE OF RETURN						<u>7.71%</u>	<u>8.65%</u>		

Cypress Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/12						Schedule No. 3-A Docket No. 130212-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$317,304</u>	<u>\$100,603</u> 31.71%	<u>\$417,907</u>	<u>(\$104,634)</u>	<u>\$313,273</u>	<u>\$60,781</u> 19.40%	<u>\$374,054</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$215,132	\$17,284	\$232,416	(\$22,996)	\$209,420		\$209,420
3 Depreciation	61,810	(3,846)	57,964	(7,247)	50,717		50,717
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	50,038	(3,290)	46,748	(15,693)	31,055	2,735	33,791
6 Income Taxes	<u>22,510</u>	<u>(1,055)</u>	<u>21,455</u>	<u>(22,179)</u>	<u>(724)</u>	<u>21,843</u>	<u>21,119</u>
7 <b>Total Operating Expense</b>	<u>349,490</u>	<u>9,093</u>	<u>358,583</u>	<u>(68,115)</u>	<u>290,468</u>	<u>24,578</u>	<u>315,046</u>
8 <b>Operating Income</b>	<u>(\$32,186)</u>	<u>\$91,510</u>	<u>\$59,324</u>	<u>(\$36,519)</u>	<u>\$22,805</u>	<u>\$36,203</u>	<u>\$59,009</u>
9 <b>Rate Base</b>	<u>\$689,166</u>		<u>\$717,721</u>		<u>\$721,607</u>		<u>\$721,607</u>
10 <b>Rate of Return</b>	<u>-4.67%</u>		<u>8.27%</u>		<u>3.16%</u>		<u>8.18%</u>

<b>Cypress Lakes Utilities, Inc.</b>						<b>Schedule No. 3-B</b>	
<b>Statement of Wastewater Operations</b>						<b>Docket No. 130212-WS</b>	
<b>Test Year Ended 12/31/12</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>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>
1 <b>Operating Revenues:</b>	<u>\$667,852</u>	<u>\$26,350</u> 3.95%	<u>\$694,202</u>	<u>(\$26,860)</u>	<u>\$667,342</u>	<u>(\$8,134)</u> -1.22%	<u>\$659,208</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$283,285	\$15,884	\$299,169	(\$20,167)	\$279,002		\$279,002
3 Depreciation	117,729	(628)	117,101	20,696	137,797		137,797
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	45,987	12,209	58,196	(11,140)	47,056	(366)	46,690
6 Income Taxes	<u>20,688</u>	<u>37,658</u>	<u>58,346</u>	<u>(3,838)</u>	<u>54,508</u>	<u>(2,923)</u>	<u>51,584</u>
7 <b>Total Operating Expense</b>	<u>467,689</u>	<u>65,123</u>	<u>532,812</u>	<u>(14,449)</u>	<u>518,363</u>	<u>(3,289)</u>	<u>515,074</u>
8 <b>Operating Income</b>	<u>\$200,163</u>	<u>(\$38,773)</u>	<u>\$161,390</u>	<u>(\$12,411)</u>	<u>\$148,979</u>	<u>(\$4,845)</u>	<u>\$144,134</u>
9 <b>Rate Base</b>	<u>\$1,746,935</u>		<u>\$1,951,812</u>		<u>\$1,762,598</u>		<u>\$1,762,598</u>
10 <b>Rate of Return</b>	<u>11.46%</u>		<u>8.27%</u>		<u>8.45%</u>		<u>8.18%</u>

<b>Cypress Lakes Utilities, Inc.</b>		<b>Schedule No. 3-C</b>	
<b>Adjustments to Operating Income</b>		<b>Docket No. 130212-WS</b>	
<b>Test Year Ended 12/31/12</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$100,603)	(\$26,350)	
2 Staff adjustment to annualized revenues (Issue 11)	(3,031)	(510)	
3 Audit adjustments agreed to by Utility (Issue 12)	<u>(1,000)</u>	<u>0</u>	
4 Total	<u>(\$104,634)</u>	<u>(\$26,860)</u>	
<u>Operation and Maintenance Expense</u>			
1 Phoenix Project adjustment. (Issue 3)	(\$2,306)	(\$2,118)	
2 Test year adjustment. (Issue 4)	(1,718)	0	
3 Excessive I&I. (Issue 6)	0	(626)	
4 Audit adjustments agreed to by Utility. (Issue 12)	(11,994)	(11,014)	
5 Reflect salary adjustment. (Issue 13)	(1,967)	(1,806)	
6 Rate Case Expense. (Issue 14 )	868	798	
7 Test year adjustments. (Issue 15)	<u>(5,881)</u>	<u>(5,401)</u>	
8 Total	<u>(\$22,996)</u>	<u>(\$20,167)</u>	
<u>Depreciation Expense - Net</u>			
1 Phoenix Project adjustment. (Issue 3)	(\$4,032)	(\$3,703)	
2 To reflect appropriate test year plant adjustments. (Issue 4)	775	0	
3 To reflect appropriate pro forma plant amount. (Issue 5 )	0	(52)	
4 Audit adjustments agreed to by Utility. (Issue 12)	<u>(3,990)</u>	<u>24,451</u>	
5 Total	<u>(\$7,247)</u>	<u>\$20,696</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$4,709)	(\$1,209)	
2 To reflect test year plant adjustments. (Issue 4)	320	0	
3 To reflect appropriate pro forma property taxes. (Issue 5)	(704)	(189)	
4 To reflect test year O&M adjustments. (Issue 13)	(282)	(259)	
5 To reflect appropriate property tax. (Issue 16)	<u>(10,318)</u>	<u>(9,483)</u>	
6 Total	<u>(\$15,693)</u>	<u>(\$11,140)</u>	

<b>Cypress Lakes Utilities Inc.</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/12</b>		<b>Docket No. 130212-WS</b>			
<b>Monthly Water Rates</b>					
	<b>UTILITY CURRENT RATES</b>	<b>COMMISSION APPROVED INTERIM</b>	<b>UTILITY REQUESTED FINAL</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8"X3/4"	\$5.99	\$7.61	\$7.98	\$7.16	\$0.31
3/4"	N/A	N/A	\$11.97	\$10.74	\$0.47
1"	\$14.97	\$19.03	\$19.95	\$17.90	\$0.79
1-1/2"	\$29.96	\$38.08	\$39.94	\$35.82	\$1.58
2"	\$47.92	\$60.91	\$63.88	\$57.30	\$2.52
3"	\$95.83	\$121.80	\$127.74	\$114.58	\$5.04
4"	\$149.75	\$190.33	\$199.61	\$179.06	\$7.87
6"	\$299.48	\$380.64	\$399.20	\$358.09	\$15.75
Charge per 1,000 Gallons - Residential					
0-6,000 Gallons	\$4.12	\$5.24	\$5.49	\$4.93	\$0.22
6,001-12,000 Gallons	\$6.18	\$7.85	\$8.24	\$7.39	\$0.32
Over 12,000 Gallons	\$8.24	\$10.47	\$10.98	\$9.85	\$0.43
Charge per 1,000 Gallons - General Service					
	\$4.37	\$5.55	\$5.83	\$5.23	\$0.23
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$18.35	\$23.33	\$24.45	\$21.95	
6,000 Gallons	\$30.71	\$33.81	\$35.43	\$36.74	
10,000 Gallons	\$55.43	\$70.45	\$73.88	\$66.30	

<b>Cypress Lakes Utilities, Inc.</b>		<b>Schedule No. 4-B</b>		
<b>Monthly Wastewater Rates</b>		<b>Docket No. 130212-WS</b>		
<b>Test Year Ended 12/31/12</b>				
	<b>UTILITY CURRENT RATES</b>	<b>UTILITY REQUESTED FINAL</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4 YEAR RATE REDUCTION</b>
<b><u>Residential</u></b>				
Base Facility Charge - All Meter Sizes	\$21.46	\$22.32	\$21.20	\$0.48
Charge per 1,000 Gallons *6,000 gallon cap	\$7.24	\$7.53	\$7.15	\$0.16
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$21.46	\$22.32	\$21.20	\$0.48
3/4"	N/A	N/A	\$31.80	\$0.73
1"	\$53.67	\$55.81	\$53.02	\$1.21
1-1/2"	\$107.32	\$111.60	\$106.01	\$2.42
2"	\$171.71	\$178.55	\$169.62	\$3.87
3"	\$343.43	\$357.12	\$339.24	\$7.74
4"	\$536.61	\$558.00	\$530.06	\$12.09
6"	\$1,073.23	\$1,116.01	\$1,060.14	\$24.18
Charge per 1,000 Gallons	\$8.68	\$9.03	\$8.57	\$0.20
<b><u>Reuse Service</u></b>	\$0.00	\$0.00	\$0.00	\$0.00
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$43.18	\$44.91	\$42.65	
6,000 Gallons	\$64.90	\$67.50	\$64.10	
10,000 Gallons	\$64.90	\$67.50	\$64.10	