FILED SEP 22, 2014
DOCUMENT NO. 05316-14
FPSC - COMMISSION CLERK

State of Florida

Public Service Commission

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

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

DATE: September 22, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Bruce, Daniel, Hudson)
Division of Accounting and Finance (Golden, Mouring, Vogel)
Division of Engineering (Buys, King, Lewis, Vickery)
Office of the General Counsel (Murphy)

RE: Docket No. 130265-WU – Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.

AGENDA: 10/02/14 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 9 and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 04/03/2015 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Table of Contents

Case Background

Little Gasparilla Water Utility, Inc. (Little Gasparilla or Utility) is a Class B water utility serving approximately 371 customers on Little Gasparilla Island in Charlotte County. The Utility's service area is on a private island, which consists primarily of vacation homes. Little Gasparilla's service territory is located in the Southern Water Use Caution Area (SWUCA) within the Southwest Florida Water Management District (SWFWMD). Water service is provided through a reverse osmosis water treatment plant. Wastewater service is provided by either septic tanks or a central wastewater system owned by the condominium's homeowners' association (HOA).[1] According to Little Gasparilla's 2013 annual report, total gross revenues were $258,770 and total operating expenses were $231,320.

Little Gasparilla has been in existence since 1986 and was granted an original certificate in 2001.[2] Effective September 25, 2007, the Florida Public Service Commission's (Commission or PSC) jurisdiction was rescinded by Charlotte County, and the Utility's certificate was cancelled.[3] Subsequently in 2013, Charlotte County transferred jurisdiction back to the PSC. Effective February 12, 2013, Little Gasparilla was granted Certificate No. 661-W.[4] Little Gasparilla's rate base was established by Charlotte County as of December 31, 2010, but has never been set by the PSC.[5] In the instant docket, the Utility filed its application on November 4, 2013. The official date of filing is January 3, 2014.

One of the primary reasons the Utility filed this case is to address the planned subaqueous pipeline from the island to an interconnection with Charlotte County to purchase bulk water. The Utility indicated that the interconnection will be economical and feasible while improving the water source. The Utility anticipates the completion of the interconnect by November 2014.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

---

[1] The homeowner's association provides service solely to members and is exempt pursuant to Section 367.022 (7), F.S.
[2] See Order No. PSC-01-0992-PAA-WU, issued April 20, 2001, in Docket No. 001049-WU. In re: Application for original water certificate in Charlotte County by Little Gasparilla Water Utility, Inc.
[3] See Order No. PSC-07-0984-FOF-WS, issued December 10, 2007, in Docket No. 070643-WS, In re: Resolution No. 2007-143 by Charlotte County Board of Commissioners, in accordance with Section 367.171, F.S., rescinding Florida Public Service Commission jurisdiction over private water and wastewater systems in Charlotte County.
[4] See Order No. PSC-13-0177-PAA-WU, issued April 29, 2013, in Docket No. 130052-WU, In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.
[5] See Charlotte County Board of County Commissioners' Resolution Number 2012-032, issued June 12, 2012, in Charlotte County Docket No. 2011-02-W, In re: Application of Little Gasparilla Water Utility, Inc. for Staff Assisted Rate Case.

Discussion of Issues

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

Recommendation: No. Staff recommends the Commission find that the current quality of service is marginal. While the Utility is currently meeting all applicable primary standards as prescribed in DEP's rules, it has one secondary standard, Chloride, that exceeds acceptable levels and the Utility has not corrected the deficiencies identified in the last two DEP Sanitary Survey Reports. However, the Utility is taking a proactive approach to mitigate these issues and the quality of water by proposing an interconnection with Charlotte County. Therefore, staff does not recommend a reduction in the return on equity (ROE) or any other follow-up measures due to the Utility's proactive action to improve and maintain the quality of service for the existing customers of Little Gasparilla. (P. Buys)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities

Little Gasparilla's service area is located on Little Gasparilla Island, near Englewood, Florida in Charlotte County. The raw water source is ground water, which is obtained from three wells in the service area and is treated. The water treatment processing sequence is to pump raw water from the aquifer, perform a desalination process through reverse osmosis (R/O) facilities, inject calcium hypochlorite for disinfection purposes, store the treated water in storage tanks, and distribute. Wastewater service is provided via private septic tanks or a central wastewater treatment plant owned by the HOA.

As noted in the case background, the Utility is planning a subaqueous interconnection from Little Gasparilla Island to Charlotte County. The Utility will purchase bulk water from Charlotte County and the water will be delivered by way of an 8-inch subaqueous pipe. Little Gasparilla entered into an Interconnect Agreement with Charlotte County Utility (CCU) on February 25, 2014. The Interconnection Agreement states that Little Gasparilla shall design and construct the crossings (subaqueous pipelines and interconnections), consistent with its applicable permit and at the sole cost and expense of Little Gasparilla. The construction permit was issued and DEP deemed it final on August 22, 2014. The permit expires on August 21, 2019.

The existing reverse osmosis plant appears to be at the end of its useful life and can no longer adequately remove the chlorides from the source water. The Utility indicated that the interconnection and purchase of bulk water will not only improve the water quality on the island but it is a more cost-effective option than repairing the existing water treatment plant (WTP). If Little Gasparilla repaired the WTP, the scale inhibitor injection system, cartridge filtration, high pressure pump, R/O skid assembly, and other R/O elements would need to be replaced. The estimated cost to replace the listed components and repair the WTP is approximately $875,000 to $962,500. The estimated cost to construct the interconnection is approximately $679,775. Construction of the interconnection is expected to begin mid-October 2014 and should be completed within 30 days. Staff believes the interconnection with CCU is prudent. Moreover, the costs are reasonable when compared to the costs to repair the existing WTP, the quality of the water will improve, and because R/O plants are more expensive to operate and maintain than other types of WTP, the Utility should realize long-term cost benefits.

Staff reviewed the chemical analysis with samples dated December 20, 2012. All of the contaminants except for the Chloride, which is a secondary contaminant, were below the Maximum Contaminant Level (MCL). The MCL for Chloride is 250 milligrams per liter (mg/L) and the Chloride tested at 315 mg/L. The secondary contaminants are those contaminants a customer would likely notice because they impact things like color or smell. However, secondary contaminants are not a health risk and DEP does not typically undertake enforcement actions for MCLs, unless another type of contaminant exceeds the MCL. Staff contacted DEP about the chemical analysis and DEP noted that the source water is very salty which may be the cause of the high Chloride level. Staff believes the interconnection with Charlotte County will improve the Utility's water source.

Staff also reviewed the Utility's last two DEP Sanitary Survey Reports, dated November 9, 2012, and December 6, 2013. Both reports noted the same deficiencies: one of the wells was leaking and there was no safety equipment for handling the chlorine. During the site visit to Little Gasparilla's WTP on July 16, 2014, staff observed one of the wells was leaking and verified that it was the same well noted in the DEP's reports. Staff also asked the Utility about the lack of safety equipment. The Utility stated that the equipment was not ordered because when the interconnection with CCU is completed it will no longer be necessary to handle chlorine; therefore, the safety equipment would not be needed. However if the interconnection is not complete by the next scheduled DEP survey in December 2014, the Utility assured staff that the proper safety equipment would be ordered and in place.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the PSC's complaint records and there were no complaints recorded during the test year. The Utility recorded one complaint during the test year and twelve prior to the test year. Of the thirteen complaints, eight were billing related, which included the one complaint in the test year, and two concerned the quality of water. Of these complaints, one was about salt in the water and the other complainant had questions about the Consumer Confidence Report (CCR). Two additional complaints were concerning leaks in the pipes and valves not closing. The last complaint concerned meters and alleged high readings. The Utility responded to the billing complaints by giving the customer another copy of their bills, giving the customers their billing history, explaining the charges, or re-reading the meters. The Utility answered the questions about the CCR and explained about the salt in the water. The Utility also checked for leaks, re-read the meters and repaired the valves.

The customer meeting was held in Englewood, Florida on July 16, 2014. Twenty-nine residents of Little Gasparilla Island attended the meeting and fourteen residents spoke. Of the fourteen, only four were customers of the Utility. The four Utility customers that spoke were concerned about the rate increase. Specifically, one customer mentioned that the base facility charge for the Phase II rates seemed high and another noted that a neighboring island did the same kind of interconnection that Little Gasparilla is proposing and they did not ask for a rate increase. The customer also suggested that Phase II rates not go into effect until all the pro forma is completed. The third customer was concerned about the cost of the proposed building and the fourth customer thought the Staff Report lacked detail.

The ten residents that spoke, who are not customers of the Utility because they have their own water systems, were concerned about being required to connect to the Utility and the high rates. These customers addressed a Charlotte County ordinance that states if a resident is within 100 feet of a potable water system's main line, the resident is required to connect to the utility. There are approximately 135 residents that could be affected by this ordinance. Staff explained that the issue of enforcement of this ordinance was exclusively a county jurisdictional issue. For purposes of developing rates and charges in this recommendation, staff has included a projection of new customer growth of which some portion may or may not come from the 135 customers mentioned above.

The Commission received nine comments regarding this rate case. Four of the comments, filed by residents who are not utility customers, addressed the mandatory connection and high rates. Three utility customers made comment concerning the high rates stating that it was a 200 percent increase. Furthermore, a customer had concerns regarding the County raising its rates for Little Gasparilla. The last comment, by a utility customer, asked the Commission to review the rate increase and mentioned the small percent of Little Gasparilla property owners who are opposed to the possible mandatory connection. This customer also stated that the owner of the Utility has been working hard to bring safe drinking water to the island and believes the residents should have checked with Little Gasparilla before investing their money in their own water system. Based on the above, it appears the Utility has attempted to address its customer's concerns.

<u>Summary</u>

Staff recommends the Commission find that the current quality of service is marginal. While the Utility is currently meeting all applicable primary standards as prescribed in DEP's rules, it has one secondary standard, Chloride, that exceeds acceptable levels and the Utility has not corrected the deficiencies identified in the last two DEP Sanitary Survey Reports. However, the Utility is taking a proactive approach to mitigate these issues and the quality of water by proposing an interconnection with Charlotte County. Therefore, staff does not recommend a reduction in the return on equity (ROE) or any other follow-up measures due to the Utility's proactive action to improve and maintain the quality of service for the existing customers of Little Gasparilla.

Issue 2: What are the used and useful percentages (U&U) of the subaqueous interconnection pipeline and the water distribution system?

Recommendation: Staff is not recommending U&U percentages for Little Gasparilla's water treatment plant and storage facilities due to the fact that these assets will be retired as a result of the pending interconnection with Charlotte County. Little Gasparilla's subaqueous interconnection pipeline should be considered 100 percent U&U and the water distribution system should be considered 57 percent. Staff recommends that a seven percent adjustment to purchased power, chemicals, and purchased water should be made for excessive unaccounted for water (EUW). (P. Buys)

Staff Analysis: Little Gasparilla has a desalination water treatment plant (WTP) with two 4-inch wells and a third 6-inch well. Each well is rated at 60 gallons per minute (gpm) for a total capacity of 180 gpm. Raw water goes through a membrane treatment process and is then treated with injected calcium hypochlorite prior to entry into the two ground storage tanks. The Utility's concrete storage tank has a capacity of 146,600 gallons and its fiberglass storage tank has a capacity of 12,000 gallons. The treated water from the tanks is then pumped into the water distribution system.

The distribution system is a composite network of approximately 15,000 linear feet of 6-inch PVC pipe, 6,000 linear feet of 4-inch PVC pipe, 4,000 linear feet of 3- inch PVC pipe, and 2,000 linear feet of 2 and 1-inch PVC pipe. According to the Utility, there are 14 fire hydrants on the island but only 9 are supported by the distribution system. The remaining hydrants are private pond fed hydrants. Staff notes that there have been no prior rate cases for this Utility before the Commission; therefore, U&U percentages for the WTP, storage facilities, and the distribution system have not been previously established.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of ten percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. The rule provides that to determine whether adjustments to plant and 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 other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Utility produced 10,291,000 gallons of water and sold 8,557,210 gallons of water to customers. The Utility did not record any water used for other uses. The result ([10,291,000 – 8,557,210] / 10,291,000) for unaccounted for water is 17 percent, which would mean there is EUW of 7 percent. Seven percent of the water produced would be 720,370 gallons or 1,974 gallons per day (gpd). The Utility believes the EUW could be the result of flushing that was not recorded and old meters that are not registering properly.

Staff notes that the Utility is in the process of replacing the old meters, which are approximately 27 years old. The Utility replaced approximately 25 meters in 2013 and has proposed a meter replacement plan which includes replacing 100 existing meters per year for four years. The estimated cost for the meter replacement program is $24,915 for one year. This includes 100 remote read meters with software and training. The Utility is proposing to switch to remote read meters for better meter accuracy, leak detection, and abnormal usage detection. The Utility noted that it does sometimes have to estimate some meter readings due to the fact that the meter is under water. The Utility stated this issue will be resolved by using remote read meters. Staff recommends the meter replacement program is prudent and reasonable and should reduce the amount of EUW for the Utility.

WTP U&U and Storage U&U

As discussed in Issue 1, the Utility is planning a subaqueous interconnection to Charlotte County. When the Utility starts reselling Charlotte County's water by way of the interconnection, the WTP and storage tanks will be retired. The retirement of the WTP and storage tanks will be further discussed in Issue 3. As a result of the retirements, staff is not recommending U&U percentages for the WTP and storage tanks.

Subaqueous Interconnection Pipeline U&U

Pursuant to Rule 25-30.4325(4), F.A.C., a water system with one well is 100 percent U&U. Staff believes the rule is applicable in this situation, in that the single interconnection is equivalent to a single well. Therefore, the subaqueous interconnection pipeline should be considered 100 percent U&U.

Distribution System U&U

The U&U calculation for the distribution system is based on the average customers during the test year plus the growth allowance, pursuant to Rule 25-30.431, F.A.C., divided by the distribution system capacity. The Utility's distribution lines were constructed to serve 683 (683 equivalent residential connections or ERCs) lots in the Utility's service territory. As discussed in Issue 3, there are approximately 67 lots on the north side of the island that will be added at the same time as the subaqueous interconnection. There were an average of 358 residential customers and 13 general service customers (371 ERCs) during the test year and based on historic data, the growth allowance is 58 ERCs. The result ([371 +58]/ [683 + 67]) is 57 percent U&U for the distribution system.

Summary

Staff is not recommending U&U percentages for Little Gasparilla's water treatment plant and storage facilities due to the fact that these assets will be retired as a result of the pending interconnection with Charlotte County. Little Gasparilla's subaqueous interconnection pipeline should be considered 100 percent U&U and the water distribution system should be considered 57 percent U&U. Staff recommends that a seven percent adjustment to purchased power, chemicals, and purchased water should be made for excessive unaccounted for water (EUW).

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

Recommendation: The appropriate average test year rate base for Little Gasparilla is $538,123. The Utility should be required to submit a copy of the final invoices and cancelled checks for the pro forma subaqueous pipeline and interconnection project prior to implementing the Phase I rates. (Golden, Vogel, P. Buys)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, non-used and useful components, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC, and working capital. Little Gasparilla's rate base has never been established by this Commission. The Utility's only prior rate case was finalized in 2012 while under Charlotte County's jurisdiction.[6] Staff selected the test year ended September 30, 2013, for the instant rate case. Also, staff has incorporated adjustments to address concerns expressed in OPC's August 28, 2014 letter. A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS) The Utility recorded a test year UPIS balance of $1,378,288 as of September 30, 2013. Audit staff determined that the original plant and a significant portion of plant additions could not be verified due to lack of records. Staff was advised by the Utility that many of the records were damaged in storage. During this case, the Utility worked diligently to recover as much supporting documentation as possible. As discussed in Issue 1, the Utility requested consideration of several pro forma items in this case including a planned interconnect with Charlotte County and construction of a new utility building. Completion of the pro forma projects will require the retirement of significant portions of utility plant. In order to calculate an appropriate balance for UPIS for that purpose, staff supplemented the existing records with available information from the Utility's federal tax returns from 2000 through 2011, and the Utility's annual reports filed with either the Commission or Charlotte County between 2000 and 2013. In addition, staff confirmed the existence of major plant components during staff's engineering inspection.

While the use of tax returns and annual reports is not ideal, the Commission has previously approved this approach in another SARC. Specifically, the Commission approved the use of a utility's tax return and annual report to calculate UPIS when original records were not available in Docket No. 110165-SU.[7] In that case, the Commission approved Utility Corporation of Florida, Inc.'s UPIS based upon a review of the Utility's 2007 tax return and 2007 annual report, supplemented with available invoices. Therefore, staff believes this approach is a reasonable alternative in this case as well, especially in consideration of the multiple years of tax returns and annual reports that are available for comparison. As noted above, the Utility completed a rate case under Charlotte County's jurisdiction that become effective in June 2012. In that case, the County also relied upon the Utility's tax returns and annual reports to establish UPIS. Staff does not believe the Commission is required to accept rate case information approved by other governmental entities if the methodologies differ from Commission practice,

[6] See Charlotte County Board of County Commissioner's Resolution Number 2012-032, issued June 12, 2012.
[7] See Order No. PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

but in this case, staff believes it helps to further support the consistency in the Utility's available information.

As will be discussed in Issue 10, staff is recommending a two-phased rate increase to address several of the Utility's pro forma requests. Initially in the Staff Report, all of the Utility's pro forma plant items were reflected in Phase II. However, as this case has progressed, many of the pro forma items have either been completed or will be completed before the Phase I rates are due to become effective. Specifically, the Utility has completed the pro forma generator repair, golf cart purchase, and backhoe purchase. The generator repair was completed in June and paid in full in July. The golf cart was purchased in August through a trade arrangement with the golf cart vendor. The golf cart vendor provided the Utility with a golf cart worth $4,500 in exchange for a new water service connection, also worth $4,500 in service availability charges. As will be discussed below, staff has increased CIAC by $4,500 to reflect the addition of the new water customer. The backhoe was purchased in July and financed through the manufacturer, as will be discussed in Issue 4. In addition, construction of the subaqueous pipeline and county interconnect, and north line extension is scheduled to begin in early October and be completed within a month. Therefore, staff has adjusted UPIS to include all of the Utility's requested pro forma plant additions in Phase I except for the new utility building and meter replacement program, which will not be completed until 2015. Staff's recommended adjustments to UPIS are shown in Table 3-1 below, following a discussion of several concerns raised by OPC.

In its August 28 letter, OPC raised several concerns related to the Utility's pro forma projects. During the last few years, the Utility has been incurring engineering and legal costs related to the interconnection project that have been held in deferred accounts pending completion of the project. In its August 28 letter, OPC suggested that $9,925 of the $21,099 deferred engineering costs be excluded for lack of support based upon the PSC's audit. However, subsequent to the audit, the Utility provided additional supporting documentation for these costs. Staff believes it would be appropriate to allow the total cost, and has increased UPIS by $21,099 to reflect the deferred engineering costs incurred from 2011 through 2013.

As of April 2014, the Utility indicated that it had already spent $53,424 on engineering and legal fees related to the county interconnect. OPC has proposed disallowing $14,298 of the shared legal fees for lack of support. Little Gasparilla, Knight Island Utilities, and Bocilla Utilities are all involved in interconnection projects with Charlotte County Utilities. Knight Island's interconnection is a subaqueous pipeline similar to the one planned by Little Gasparilla. Because the permitting and legal work required for these projects is similar, all three utilities agreed to equally share the legal costs in order to reduce the total expense of these projects for each utility. Staff believes that denying recovery of these expenses could possibly discourage this type of joint cost savings effort in the future. Staff reviewed the legal fees questioned by OPC and believes that $4,265 of that total includes sufficient detail to tie the fees to the county interconnection project. However, based on the lack of detailed legal invoices for the remaining $10,033 of that total, staff agrees it would be appropriate to exclude that portion of the total cost pending additional supporting documentation. Therefore, staff believes it would be appropriate to increase UPIS by $43,391 ($53,424 - $10,033) to reflect Little Gasparilla's previously incurred engineering costs and share of the joint legal fees related to the county interconnect.

The Utility also requests, as a pro forma project, a water main extension to the north end of the island. There are approximately 67 remaining lots on the north side of the island not connected to the Utility's distribution system. The Utility is proposing to extend the distribution system to include these lots and plans to undertake this project at the same time as the interconnection project. According to the Utility, approximately ten customers in the nothern portion of the its service area have requested service.

In its August 28 letter, OPC proposes that a portion of the Utility's $51,700 in estimated future engineering costs included in the total cost of the interconnection project are actually related to north line extension instead. OPC proposes those costs should be excluded from the county interconnect project, but did not identify any specific costs. Engineering staff has identified $16,700 of the total $51,700 that appears to be related to the north line extension. Staff agrees that it would be appropriate to remove any costs related to the north line extension from the total cost of the interconnect. The Utility provided 2 bids for the subaqueous pipeline and county interconnect totaling $696,475 and $706,400. Applying the $16,700 reduction to the lowest bid of $696,475 results in a total cost of $679,775. Therefore, staff has increased UPIS by $679,775 to reflect the pro forma cost of the subaqueous pipeline and county interconnect. In addition, based on a review of the Utility's federal income tax and annual report information as described above, staff believes it would be appropriate to decrease UPIS by $558,199 to reflect retirement of the plant components that will no longer be used to provide water service following the county interconnect.

Based on bid information provided by the Utility, the north line extension will cost approximately $69,500. Combined with the $16,700 in engineering costs discussed above, the total cost for the project is estimated to be $86,200. Therefore, staff has increased UPIS by $86,200 to reflect the pro forma cost of the north line extension. There are no plant retirements associated with this project.

Staff recommends the following adjustments to UPIS, which includes the adjustments discussed above.

Table 3-1

SUMMARY OF ADJUSTMENTS TO UPIS		
	Adjustment Description	Water
1.	To reclassify meters from expense Accts. 620 & 636 to Acct. 334.	$2,000
2.	To reclassify structures and improvements from expense Acct. 675 to Acct. 304.	541
3.	To remove unsupported plant additions from 2002 through 2013.	(32,209)
4.	To reflect pro forma plant addition for generator repair to Acct. No. 310.	1,326
5.	To reflect pro forma plant addition for golf cart to Acct. No. 341.	4,500
6.	To reflect pro forma plant addition for backhoe to Acct. No. 345.	30,878
7.	To reflect deferred engineering fees for interconnection to Acct. 309.	21,099
8.	To reflect plant additions for permitting and legal fees to Acct. 309.	43,391
9.	To reflect pro forma plant addition for subaqueous pipeline to Acct. 309.	679,775
10.	To reflect retirement of plant replaced by subaqueous pipeline/interconnection.	(558,199)
11.	To reflect pro forma plant addition for north line extension.	86,200
12.	To reflect an averaging adjustment.	(2,414)
	Total	**$276,888**

Based on the adjustments shown above, staff's net adjustment to UPIS is an increase of $276,888. Staff recommends a UPIS balance of $1,655,176. Also, staff believes the Utility should be required to submit a copy of the final invoices and cancelled checks for the pro forma subaqueous pipeline and interconnection, and north line extension projects prior to implementing the Phase I rates.

Land and Land Rights – The Utility recorded a test year land balance of $52,475. No adjustments are necessary, therefore, staff recommends a land and land rights balance of $52,475.

Non-Used and Useful Plant – As discussed in Issue 2, the distribution system is 57 percent U&U. Application of the U&U percentages to the applicable average plant balances and associated average accumulated depreciation balances results in a net adjustment of $110,295. Therefore, rate base should be reduced by $110,295 to reflect non-U&U plant and accumulated depreciation.

Contribution in Aid of Construction (CIAC) – The Utility did not record a test year CIAC balance on its books, but did reflect CIAC in its annual reports. Based upon a review of the Utility's annual reports filed with either the Commission or Charlotte County between 2000 and 2013, the Utility's books for 2011 through 2013, and the Utility's 2013 billing records, staff calculated test year CIAC of $637,600. Also, staff made a pro forma adjustment to increase CIAC by $4,500 to reflect the new customer connection as discussed above. In addition, staff reduced CIAC by $301,955 to retire the CIAC associated with the plant retirements resulting from the county interconnect. Lastly, staff increased CIAC by $139,728 to reflect an averaging adjustment. Staff recommends a CIAC balance of $479,873.

Accumulated Depreciation – Little Gasparilla recorded a test year accumulated depreciation balance of $1,045,035. The Utility's tax returns and annual reports indicate that the Utility began calculating depreciation in 1999 when the Utility was purchased by the current owners. However, based on Commission practice, depreciation should begin when the plant component is first placed into service. Accordingly, staff has calculated the annual accruals to accumulated depreciation beginning with the year 1987 when the plant was first placed in service, using the prescribed rates set forth in Rule 25-30.140, F.A.C. Based on staff's adjustments to the plant balances, depreciation rates, and incorporation of applicable retirements, staff has determined that the accumulated depreciation should be decreased by $598,226 to reflect the correct balance for the test year. Also, staff increased this account by $250,847 to reflect an averaging adjustment. Staff's net adjustment to accumulated depreciation is a decrease of $347,379, resulting in an accumulated depreciation balance of $697,656.

Accumulated Amortization of CIAC – Little Gasparilla recorded no amortization of CIAC. Amortization of CIAC has been calculated by staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be increased by $130,936. Staff's adjustment includes amortization of CIAC for the $4,500 pro forma CIAC adjustment as discussed earlier. In addition, staff decreased this account by $61,916 to retire the accumulated amortization of CIAC associated with the CIAC retirement shown above. In addition, staff increased this account by $23,072 to reflect an averaging adjustment, resulting in a net adjustment of $92,092. Therefore, staff recommends an amortization of CIAC balance of $92,092.

Working Capital Allowance – Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $26,205 (based on O&M expense of $209,637/8). Staff increased the working capital allowance by $26,205.

Rate Base Summary – Based on the foregoing, staff recommends that the appropriate average test year rate base is $538,123. Staff recommends that the Utility be required to submit a copy of the final invoices and cancelled checks for the pro forma subaqueous pipeline and interconnection project prior to implementing the Phase I rates. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What are the appropriate return on equity and overall rate of return for Little Gasparilla?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 6.28 percent. (Golden, Vogel)

Staff Analysis: According to staff's audit, the Utility's test year capital structure reflected common equity of $1,000 and long-term debt of $663,235. Audit staff determined that no adjustments are necessary to the test year.

As discussed in Issues 1 and 3, the Utility has requested approval of several pro forma additions. The Utility plans to finance a portion of the pro forma items with a long-term debt arrangement comprised of a bank loan for 50 percent of the investment, a small business administration (SBA) loan for 40 percent of the investment, and utility equity for the remaining 10 percent of the investment. Staff has increased long-term debt by $405,000 and $324,000 to cover the bank and SBA portions of the loan, respectively. In addition, staff has increased common equity by $81,000 to reflect the Utility's 10 percent share of the financing. The Utility has also arranged to finance the purchase of the backhoe. Therefore, staff has increased the capital structure by $30,503 to reflect the additional long-term debt for the backhoe. Staff's adjustments reflect an $81,000 increase to equity and a $759,503 increase to debt, for a total increase of $840,503. The resulting capital structure reflects equity of $82,000 and total debt of $1,422,738.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 11.16 percent based upon the Commission-approved leverage formula currently in effect.[8] As discussed in Issue 1, staff is recommending that the Utility's quality of service is marginal, but that no punitive measures be taken. Therefore, staff is not recommending any adjustments to the ROE related to quality of service. Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 6.28 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[8] See Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-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.

Issue 5: What is the appropriate amount of test year revenues?

Recommendation: The appropriate amount of test year revenues for Little Gasparilla's water system is $264,149. (Bruce)

Staff Analysis: Little Gasparilla recorded total test year revenues of $276,331, which consists of only service revenues. Staff made several adjustments to the Utility's service revenues. The Utility incorrectly recorded CIAC of $18,900 and loan payments of $805 as service revenues. Staff decreased service revenues, accordingly. In addition, the Utility records its revenues based on an aging report. This aging report excludes any bills with a previous credit greater than the current balance due, which understates revenues. Staff reviewed the Utility's billing determinants, applied the rates that were in effect during the test year, and determined that the service revenues should be increased by $5,315.

Also, service revenues should be increased by $1,228 to impute revenues for a customer issued credit in exchange for a property easement. Furthermore, the Utility did not record late payment charges of $980 collected during the test year. Staff increased test year revenues by $980 to reflect the appropriate miscellaneous revenues. Staff's adjustments result in a net decrease of $12,182 (-$18,900-$805+$5,315+$1,228+$980) to service revenues and an increase of $980 to miscellaneous revenues. Based on the above, staff recommends that the appropriate amount of test year revenues for Little Gasparilla's water system is $264,149.

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

Recommendation: The appropriate amount of operating expenses for the Utility is $297,602. The Utility should be required to provide proof that the SEP has been established and that contributions to the fund have begun prior to implementation of the Phase II rates. (Golden, Vogel)

Staff Analysis: Little Gasparilla recorded operating expenses of $232,603 for the test year ended September 30, 2013. The test year operating expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below.

Expense Reclassifications – Little Gasparilla recorded total O&M expenses of $173,362 for the test year. Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities are required to maintain their accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Little Gasparilla maintained a majority of its expense accounts using the NARUC USOA. However, during the test year, a number of expenses were misclassified. Staff reclassified those expenses to the correct NARUC accounts. The reclassifications are revenue neutral, have no impact on the revenue requirement, and are made simply to adjust the Utility's test year account balances to the correct starting balances for rate setting purposes. In its August 28 letter, OPC noted two additional reclassifications. Staff agrees with OPC and has incorporated the additional reclassification adjustments. The adjusted account balances are reflected on Schedule No. 3-C in the "Total Per Utility" column, which continues to reflect the Utility's test year O&M expense total of $173,362 following the reclassifications. Staff's remaining adjustments that have a revenue impact are discussed in detail below.

Salaries and Wages – Employees (601) – Little Gasparilla recorded $23,383 for salaries in this account. During the test year, meter reading expense and a portion of the operations trainee's salary were recorded in Account No. 603 salaries and wages – officers expense. Staff increased this account by $6,500 to reclassify meter reading expense from Account No. 603. The test year included an extra month of meter reading expense, therefore, staff has also decreased this account by $500 to remove the extra month, resulting in total meter reading expense of $6,000. Although the Utility bills quarterly, the Utility checks the meters every two weeks to determine if vacation renters have left water on in unoccupied rental houses. The Utility has indicated that this is a common occurrence and that checking the meters regularly allows them to shut off the water on the unoccupied rental houses, thereby, helping the owners to avoid higher water bills. Staff compared the Utility's meter reading expense to the experience of other utilities and believes it is reasonable.

Also, staff increased this account by $3,705 to reclassify the operations trainee's salary from Account No. 603. In its August 28 letter, OPC indicated that it believes the operations trainee's hourly rate is high and should be reduced. During the test year, the operation trainee's hourly rate averaged over $24 per hour based on approximately 46 hours per month with on-call duties. According to the AWWA Water Utility Compensation Survey for 2012 (AWWA Compensation Survey), the hourly rate for an entry level water treatment plant operator, described as an operator in training, ranges from $14.69 to $20.22 per hour, with an average of

$16. Staff believes it would be appropriate to adjust the operations trainee's salary to reflect the average hourly rate of $16. The Utility's test year salaries included pay increases of 15 percent for some employees. In its August 28 letter, the OPC objected to that level of pay increases on the basis that it does not reflect the current economy. Based upon the AWWA Compensation Survey, the recent pay increases have averaged 2 percent. Therefore, staff believes it would be appropriate to allow inclusion of a 2 percent pay increase. This increase results in an hourly rate of $16.32. Therefore, staff decreased this account by $10,423 to reflect the appropriate operations trainee salary.

In addition, in its August 28 letter, OPC indicated that it believes additional adjustments may be appropriate due to the changing nature of the plant operations following the county interconnect. OPC described the Utility's post-interconnection operation as a reseller. While it is true that the Utility will become a reseller, staff disagrees with OPC's suggestion that there will be minimal work for the Utility personnel following the interconnect. The Utility will be required to maintain and operate the system from the point of connection at the master meter on the mainland, through the subaqueous pipeline, and onto the island. The Utility will be required to continue monitoring the operation of the system on the island to ensure its proper operation, which may ultimately require the use of additional pumps and injection of chlorine. At this time, it is not known with certainty the extent to which the work required to operate this system will be reduced. Therefore, staff does not believe it would be appropriate to make any additional adjustments at this time. However, staff believes it would be appropriate to reevaluate the required work levels in a future rate proceeding.

Staff's net adjustment to this account is a decrease of $718. Staff recommends salaries and wages – employees expense for the test year of $22,665.

Salaries and Wages – Officers (603) – Little Gasparilla recorded $70,000 for salaries in this account during the test year. Staff has decreased this account by $6,500 to reclassify test year meter reading expense to Account No. 601. Also, staff has decreased this account by $3,705 to reclassify a portion of the operations trainee's salary that was recorded in this account. The Utility requested a pro forma addition to include a salary of $18,000 for the Utility president. The $18,000 salary is split between $6,500 for meter reading duties and $11,500 for administrative/managerial duties. The president works approximately 37 hours per month. In its August 28 letter, OPC proposed that the hourly rate for the requested salary is high and should be adjusted. As noted above, staff believes a meter reading expense of $6,000 is reasonable and has reflected this expense in Account No. 601. Regarding the remaining $11,500 salary, the hourly rate equates to $25.90 per hour. Based on the AWWA Compensation Survey, the hourly rate for an office/administrative services manager, with duties similar to those described for this Utility, ranges from approximately $20 to $21 per hour. Given the combination of both administrative and executive work performed by the president, staff believes it would appropriate to allow an hourly rate of $21. As noted above, staff believes it would be appropriate to allow inclusion of a 2 percent pay increase. This increase results in an hourly rate of $21.42. Therefore, staff increased this account by $9,510 to reflect the appropriate salary for the president.

The Utility's vice president works full time and is on-call 24 hours. The vice president's duties are split between managerial and operational functions. During the test year, the vice president's salary was $60,000, following the reclassification of meter reading and operations trainee's salary expenses to Account No. 601. Based on a review of various managerial and operational positions in the AWWA Compensation Survey, salaries range from $50,000 to $84,000. As discussed above, in its August 28 letter, OPC believes the work requirements will be diminished following interconnection of the system to the county. As noted above, staff believes there will still be sufficient work involved in the operation of the system, particularly during the start-up phase of the interconnection, to warrant continuation of a full time employee to oversee the Utility's operations. However, in response to OPC's concerns, staff also reviewed the AWWA Compensation Survey's salaries for positions that are related primarily to operation of a distribution system and determined that those salaries range from $50,000 to $70,000, with an average salary of $63,000. Allowing a 2 percent pay increase on the vice president's test year salary would result in an annual salary of $61,405. Based on a review of the AWWA Compensation Survey and the vice president's duties, staff believes this is a reasonable salary for this position. Therefore, staff increased this account by $1,405 to reflect the appropriate vice president's salary. Staff's net adjustment to this account is an increase of $710. Staff recommends salaries and wages – officers expense of $70,710.

Employee Pensions and Benefits (604) – The Utility recorded no employee pensions and benefits expense during the test year, but requested a pro forma adjustment to recognize the Utility's planned Simplified Employee Pension (SEP) Plan. The Utility has taken steps to set up the SEP and plans to contribute the maximum allowed 25 percent of salaries for all eligible employees if approved. Based on staff's recommended salaries, a 25 percent annual contribution would be $23,344.

In its August 28 letter, the OPC objected to the requested 25 percent contribution level. OPC proposed that 7.5 percent would be more appropriate based upon a prior Commission decision in 2001 for Burkim Enterprises, Inc., a Class C water and wastewater utility serving 364 customers.[9] At that time, the maximum contribution level under consideration was 15 percent. Based on the size of the utility, the Commission found that allowing one half of the maximum contribution level would be reasonable, and therefore, allowed a contribution level of 7.5 percent. Order No. PSC-01-2511-PAA-WS issued in that case noted that the Commission had previously allowed 7.5 percent for a similar sized utility.[10] By Order No. PSC-01-1574-PAA-WS, the Commission found that Laniger Enterprises of America, Inc. should be allowed one half of the maximum contribution level of 15 percent, and approved a 7.5 percent contribution level. In both cases, the Commission required the utilities to provide proof within 90 days of the effective date of the final order that the retirement accounts had been established.

Currently, the Internal Revenue Service allows employers to contribute a maximum of 25 percent of each employee's pay into an SEP. Staff agrees that OPC's proposal is reasonable based upon prior Commission decisions, however, we do not believe it is appropriate to limit the Utility to the percentage contribution level established in 2001 that was based upon a maximum of 15 percent. Applying the Commission's methodology of allowing one half of the maximum

---

[9] See Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

[10] See Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In re: Application for approval of staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.

contribution level to the currently authorized 25 percent maximum results in a contribution level of 12.5 percent. Accordingly, staff believes it would be appropriate to allow the Utility to establish an SEP for its employees based upon a contribution level of 12.5 percent. Based upon staff's recommended salaries, a 12.5 percent contribution equals $11,672 annually. Therefore, staff increased this account to reflect the annual SEP contributions, and recommends employee pensions and benefits expense of $11,672.

Consistent with the above referenced cases, staff believes it would be appropriate to require the Utility to provide proof that the SEP has been established. However, because the Utility bills on a quarterly billing cycle and may not have sufficient funds with which to establish the account that soon, staff believes it would appropriate to allow the Utility additional time to provide the supporting documentation. Therefore, staff recommends that the Utility be required to provide proof that the SEP has been established and that contributions to the fund have begun prior to implementation of the Phase II rates, which is anticipated to occur during 2015.

Purchased Water (610) – The Utility did not record any purchased water expense during the test year. Upon completion of the subaqueous pipeline and interconnection with Charlotte County Utilities (CCU), the Utility will begin incurring purchased water expenses for the bulk water purchased from CCU. The Utility has estimated an annual purchased water expense of $54,325, and staff has increased this account to reflect that pro forma adjustment. However, as discussed in Issue 2, staff is recommending an EUW adjustment of 7 percent. Accordingly, staff has decreased this account by $3,803 to reflect the EUW adjustment to purchased water. Staff's net adjustment is an increase of $50,522. Therefore, staff recommends purchased water expense of $50,522.

Purchased Power (615) – The Utility recorded purchased power expense of $19,048. Staff decreased this account by $95 to remove late fees. The Utility has estimated that its purchased power expense will be reduced to approximately $4,000 following completion of the county interconnect. Accordingly, staff made a pro forma adjustment to decrease this account by $14,953 to reflect that savings. However, as discussed in Issue 2, staff is recommending an EUW adjustment of 7 percent. Therefore, staff has reduced the adjusted balance by $280 ($4,000 x .07 = $280) to reflect a 7 percent EUW adjustment. Staff's net adjustment is a decrease of $15,328. Staff recommends purchased power expense of $3,720.

Chemicals (618) – The Utility recorded chemicals expense of $2,169. Upon completion of the county interconnect, the Utility's need for chemicals will be reduced or possibly eliminated. Because there is a possibility that the Utility will need to continue supplementing the system with chlorine, staff believes it would be appropriate to continue to allow chemicals expense, but at a reduced level. Therefore, staff made a pro forma adjustment to reduce this account by $1,627. In addition, as discussed in Issue 2, staff is recommending an EUW adjustment of 7 percent. Accordingly, staff has decreased this account by $38 to reflect an EUW adjustment of 7 percent on the adjusted balance ($542 x .07 = $38). Staff's total adjustment is a decrease of $1,665, and staff recommends chemicals expense of $504.

Materials and Supplies (620) – The Utility recorded materials and supplies expense of $12,045. Staff decreased this account by $1,615 to reclassify meter expenses to plant Acct. No. 334. Also, staff decreased this account by $608 to reflect appropriate accrual reversal entries. In addition, staff decreased this account by $1,038 to remove several unsupported or non-utility expenses. In its August 28 letter, OPC proposed that the Utility's materials and supplies expense should be reduced to zero or near zero due to the expected reduction in plant repairs following completion of the county interconnect. Staff agrees that this expense should be lower in the future due to the elimination of the water treatment plant. However, we disagree with OPC's suggestion that it should be reduced to zero. The Utility's repair and maintenance work is not limited to the water treatment plant, therefore, staff believes it would be appropriate to allow a certain level of this expense going forward. Staff believes an annual expense of $2,000 is reasonable. Therefore, staff made a pro forma adjustment to reduce this account by an additional $6,784 to allow the Utility a total of $2,000 in materials and supplies expense for future repairs. Staff's total adjustment results in a decrease of $10,045. Staff recommends materials and supplies expense of $2,000.

Contractual Services - Professional (631) – The Utility recorded contractual services – professional expense of ($5,868). The negative balance is due to correcting entries that were made for items outside the test year that exceeded the test year balance. Excluding those adjustments, the test year balance would have been $14,745. Staff increased this account by $8,851 to reverse the out of period accrual adjustments for expenses from 2011. In addition, staff increased this account by $11,762 to reverse an adjustment to reclassify preliminary expenses related to the interconnection project that included out of period expenses. Staff decreased this account by $7,344 to reclassify test year preliminary expenses related to the interconnection project pending completion of the project. Staff also decreased this account by $2,643 to reflect the 5-year amortization of legal expenses related to the Utility's grandfather certificate application. Finally, staff decreased this account by $98 to remove unsupported expenses. Staff's net adjustment is an increase of $10,528. Therefore, staff recommends contractual services – professional expense of $4,660.

Contractual Services – Testing (635) – The Utility recorded contractual services – testing expense of $3,508. Staff decreased this account by $39 to remove a test year accrual that was not reversed. Staff also decreased this account by $1,540 to reflect the 3-year amortization of the triennial water tests. Staff has been advised by a DEP representative that the Utility will still be required to conduct the same types and levels of testing following completion of the county interconnect. Therefore, no additional adjustments are needed. Staff's total adjustment results in a decrease of $1,579. Staff recommends contractual services - testing expense of $1,929.

Contractual Services - Other (636) – Little Gasparilla recorded $12,952 for contractual services – other expense during the test year. Staff decreased this account by $385 to reclassify meter expenses to plant Acct. No. 334. The test year included an additional month of plant operator expenses. Consequently, staff decreased this account by $625 to reflect the appropriate test year plant operator expense. In its August 28 letter, OPC proposed that the contractual plant operator expense should be reduced or eliminated following the interconnect due to the changing nature of the work required following the interconnect. Staff has been advised by a DEP representative that DEP will still require the Utility to have a licensed plant operator. As discussed above, DEP will still require the same level of testing, and will continue to require Monthly Operating Reports. Currently, the contractual plant operator is the only licensed operator involved with the facility. The operations trainee is studying to become a licensed operator and take over the plant operator duties, but is not expected to become licensed for at least a couple of years. Although it is possible that the plant operator's workload will be reduced in the future, it is not known yet with certainly to what extent. Staff believes it would be appropriate to allow the Utility to continue to recover the test year plant operator expense at this time. However, staff also believes it would be appropriate to reevaluate the plant operator requirements in a future rate proceeding.

In addition, staff decreased this account by $315 to remove out of period expenses for weed removal. Also, staff increased this account by $290 to reflect a pro forma adjustment for the Utility's generator maintenance service contract. In its August 28 letter, OPC proposed removal of $2,660 in contractual repairs that it believes will not be needed following completion of the interconnect. Staff reviewed OPC's proposed reductions and agrees it is reasonable to eliminate the additional repairs on a going forward basis. Staff decreased this account by $2,660 to reflect the pro forma reduction in contractual repairs. Staff's net adjustment to this account is a decrease of $3,695. Therefore, staff recommends contractual services – other expense of $9,257.

Transportation Expense (650) – Little Gasparilla recorded $7,344 for transportation expense for the test year. Little Gasparilla Island is a bridgeless barrier island that may only be accessed by boat or ferry. This account includes expenses related to the operation and maintenance of the boats used by the Utility to access the Utility facilities. Staff decreased this account by $253 to reflect the 2-year amortization of the Utility's boat sanding and painting repairs. Staff increased this account by $113 to reflect the pro forma 2-year amortization of the Utility's boat registration. As discussed in Issue 3, staff is recommending approval of the Utility's request for pro forma plant additions related to the purchase of a backhoe and golf cart. Accordingly, staff is also recommending pro forma increases to reflect the increase in fuel for the backhoe of $480, an increase in annual maintenance for the backhoe of $250, and an increase in annual maintenance for the golf cart of $150. Also, staff decreased this account by $136 to reflect the 5-year amortization of a non-recurring auto repair. Finally, staff decreased this account by $1,589 to remove several unsupported, non-utility, or non-test year expenses. Staff's net adjustment is a decrease of $985. Staff recommends transportation expense for the test year of $6,359.

Insurance Expense (655) – The Utility recorded insurance expense of $11,547 for the test year. Staff decreased this account by $1,457 to remove non-utility health care costs. Also, staff decreased this account by $2,072 to remove life insurance and other unsupported expenses. In addition, staff has made pro forma adjustments to increase this account by $125 to reflect an increase in insurance for the backhoe, and by $565 to reflect an increase in insurance on the Utility's truck. Staff's net adjustment is a decrease of $2,839. Staff recommends insurance expense for the test year of $8,708.

Regulatory Commission Expense (665) – Little Gasparilla recorded regulatory commission expense of $1,000 for the test year to reflect the Utility's certification filing fee. Staff decreased this account by $800 to reflect the 5-year amortization of this expense. Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices to its customers of the customer meeting and notices of final rates for Phases I and II in this case. For noticing, staff estimated $547 for postage expense, $335 for printing expense, and $56 for envelopes. This results in $938 for the noticing requirement. The Utility paid a $1,000 rate case filing fee. The

Utility also provided invoices for legal fees of $10,295. This work related to data requests, reviewing staff's report and recommendation, and attending the customer meeting and agenda conference. Staff reviewed the billing rates and hours for this expense. Based on this review, this expense is appropriate. In addition, the Utility has requested $1,150 in rate case expense related to additional work performed by the Utility's bookkeeper related specifically to this docket. The Utility's bookkeeper currently works only one day a week, but was needed in the office additional days to assist with the PSC's audit and also to help answer data requests. Staff agrees that the bookkeeper's work on this rate case is beyond the normal workload for that position and, therefore, believes it is appropriate to allow the Utility to recover the additional expense. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends total rate case expense of $13,382 ($938 + $1,000 + $10,295 + 1,150), which amortized over 4 years is $3,346. Staff's net adjustment to this account is an increase of $2,546. Staff recommends regulatory commission expense of $3,546.

Miscellaneous Expense (675) – The Utility recorded miscellaneous expense of $8,812. Staff increased this account by $217 to reverse an accrual reversal entry that included out of period expenses. Staff decreased this account by $541 to reclassify construction materials to plant Acct. No. 304. Also, staff decreased this account by $940 to reflect the appropriate test year telephone expense. The test year included two annual drinking water permit renewal fees for 2012 and 2013, therefore, staff decreased this account by $500 to remove the additional fee. Finally, staff decreased this account by $1,086 to remove several unsupported or non-utility expenses. Staff's net adjustment to this account is a decrease of $2,850. Therefore, staff recommends miscellaneous expense of $5,962 for the test year.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by $36,275, resulting in total O&M expense of $209,637. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The Utility's records reflect test year depreciation of $26,214 and no amortization of CIAC expense. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and determined that depreciation expense should be increased by $32,500. As discussed in Issues 2 and 3, staff is recommending several adjustments to reflect non-U&U plant. Accordingly, staff decreased depreciation expense by $4,774 to reflect a non-U&U adjustment. In addition, staff calculated amortization of CIAC based on composite rates and determined amortization of CIAC of $11,997. Staff's net adjustment is an increase of $15,729 ($32,500 - $4,774 - $11,997). Therefore, staff recommends net depreciation expense of $41,943.

Taxes Other Than Income (TOTI) – Little Gasparilla recorded a TOTI balance of $33,027. Staff decreased this account by $55 to reflect the appropriate test year RAFs. Staff increased this account by $170 to reflect the appropriate test year utility property taxes. In its August 28 letter, OPC noted that the Utility's test year taxes included a penalty of $558. Staff agrees with OPC that the penalty should be removed and, therefore, staff has decreased this account by $558. Also, staff has made a pro forma adjustment to increase this account by $13,152 to reflect the increase in utility property taxes due to the net pro forma plant additions. It should be noted that the property tax adjustment excludes $36,000 in pro forma plant that the Utility will be required to donate to Charlotte County upon completion of the interconnect. As discussed in Issues 2 and 3, staff is recommending several adjustments to reflect non-U&U plant. Accordingly, staff decreased this account by $3,073 to reflect a non-U&U adjustment to utility property taxes. Staff also increased this account by $333 to reflect the appropriate payroll taxes. Staff's net adjustment to test year TOTI is an increase of $9,969. In addition, as discussed in Issue 7, revenues have been increased by $67,267 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by $3,027 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of $46,023.

Operating Expenses Summary – The application of staff's recommended adjustments to Little Gasparilla's test year operating expenses result in operating expenses of $297,602. Staff recommends that the Utility be required to provide proof that the SEP has been established and that contributions to the fund have begun prior to implementation of the Phase II rates. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate Phase I revenue requirement?

Recommendation: The appropriate Phase I revenue requirement is $331,416, resulting in an annual increase of $67,267 (25.47 percent). (Golden, Vogel)

Staff Analysis: Little Gasparilla should be allowed an annual increase of $67,267 (25.47 percent). This will allow the Utility the opportunity to recover its expenses and earn a 6.28 percent return on its investment. The calculations are as follows:

Table 7-1

Water Revenue Requirement	
Adjusted Rate Base	$538,123
Rate of Return	x 6.28%
Return on Rate Base	$33,814
Adjusted O&M Expense	209,637
Depreciation Expense (Net)	41,943
Taxes Other Than Income	46,023
Income Taxes	0
Revenue Requirement	$331,416
Less Test Year Revenues	264,149
Annual Increase	$67,267
Percent Increase	25.47%

Issue 8: What are the appropriate rate structure and rates for Little Gasparilla?

Recommendation: Staff recommends no change to water rate structure. Staff recommends that the water rates for Little Gasparilla be increased by 25.56 percent. The recommended monthly water rates shown on Schedule No. 4 should continue to be billed on a quarterly basis. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The Utility should be allowed to implement the Phase I rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Bruce)

Staff Analysis: Little Gasparilla is located in Charlotte County in the SWUCA within the SWFWMD. As previously discussed, the Utility's service area is on a private island, which consists primarily of vacation homes. There are 358 residential customers of which only about 20 are full-time residents, which is indicative of a highly seasonal customer base. In addition, there are 13 water customers billed as general service because they use water service for boat maintenance. The average residential water demand is 1,734 gallons per month, including zero gallons bills. Currently, Little Gasparilla's rate structure consists of a monthly base facility charge (BFC) and a uniform gallonage charge for both residential and general service customers. Although the rates are monthly, customers are billed on a quarterly basis. It is Commission practice to convert quarterly billing to monthly billing when appropriate to encourage water conservation. However, the Utility owner has indicated billing on a monthly basis would not be effective due to the highly seasonal nature of its customer base. Furthermore, the average usage is very low. Therefore, staff is not recommending a change to monthly billing.

Water Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential 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.

In this case, staff believes that it is not necessary to design a conservation-oriented rate structure due to the Utility's highly seasonal customer base coupled with the low average monthly consumption. In addition, no significant repression is anticipated. Staff recommends that the revenue requirement increase be applied across-the-board to the Utility's existing rates. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 25.56 percent increase in the service rates.

<u>Summary</u>

Based on the foregoing, staff recommends no change to water rate structure. Staff recommends that the water rates for Little Gasparilla be increased by 25.56 percent. The recommended monthly water rates shown on Schedule No. 4 should continue to be billed on a quarterly basis. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The Utility should be allowed to implement the Phase I rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 9: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F. S.?

Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs 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. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Little Gasparilla 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. (Bruce, Golden, Vogel)

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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is $3,531. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Little Gasparilla should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Little Gasparilla 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 10: Should the Commission approve a Phase II increase for pro forma items for Little Gasparilla?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is $375,832 which equates to a 13.40 percent increase over the Phase I revenue requirement. Staff recommends that the increase be applied as an across-the-board increase to the Phase I.

Implementation of the Phase II rates are conditioned upon Little Gasparilla completing the pro forma items within 12 months of the issuance of the consummating order. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made related to the items discussed in Issue 10, and documentation has been provided related to the SEP Plan discussed in Issue 6. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Golden, Vogel, Buys, Bruce)

Staff Analysis: As discussed in Issue 1, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, have been included in the Phase I revenue requirement as reflected in previous issues. The utility building construction and meter replacement program are scheduled to begin in 2015; therefore, staff is recommending that those projects be included in the Phase II revenue requirement. The following table summarizes the Phase II pro forma plant items and estimated cost.

Table 12-1

	Phase II Pro Forma Plant Items	**Estimated Cost**
1.	Construction of Utility Building	403,500
2.	Remote read Meter Change Out Program (Year 1)	29,915
	Total	**$433,415**

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 110238-WU, 110165-SU, and 100471-SU.[11]

[11] See Order Nos. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.; PSC-12-0410-PAA-SU, issued August 13,

As discussed in Issue 1, staff reviewed the Utility's last two DEP Sanitary Survey Reports. These reports included "Remarks and Recommendations" (not deficiencies) where it was stated that the WTP building is deteriorating. Specifically, the DEP stated that several areas at the bottom of the wood walls are becoming soft and the stairway leading to the building is deteriorating. DEP noted that it would be beneficial to address these issues as part of the overall maintenance plan for the facility. Because of the poor condition of the current building, the Utility is proposing to demolish it and build a new structure on the site. The Utility submitted three bids for the estimated cost to demolish the old WTP building (1,192 squared feet), including removal of debris by barge and building the new structure (1,964 squared feet), that ranged from $403,500 up to $416,500. Staff has included the lowest bid of $403,500 in our calculations.

According to the Utility, the new building will serve several purposes. It will be used as a workshop and storage facility for repair parts and other equipment. It will house meter-bench testing equipment to test meters on site. Also, it will serve, in part, as an office and include a restroom. Currently, the Utility is renting office space on the mainland for approximately $3,510 annually and Utility personnel, when on the island, must use the only public restrooms available at the Hide A Way Beach pool area. Staff believes having equipment storage and testing equipment on the island could reduce repair time because the Utility will not have to transport equipment and repair parts to the island. The new building will be constructed on top of the concrete water tank thereby utilizing the existing land that the Utility currently owns. After reviewing the detailed cost estimates provided and seeing the building deterioration during its site visit, staff believes the new structure is prudent, reasonable, and will allow the Utility to serve its customers better.

Also, as discussed in Issue 2, staff is recommending that the Utility's meter replacement program is prudent and reasonable. The Utility has proposed changing all the existing meters over a 4-year period at a total cost of $84,915 for materials. Staff estimates the additional labor cost for the full project will be $20,000 based on a labor cost of $50 per meter, increasing the total project cost to $104,915. The first year cost of $24,915 for materials includes the first 100 meters and the additional components needed to set up the remote read system. The additional components include a radio receiver, laptop computer, antenna, cables, and training. Including the labor cost of $5,000 ($50 labor x 100 meters), the total cost for the first year is $29,915. The estimated cost for each of the subsequent 3 years is $25,000 per year ($20,000 for materials plus $5,000 for labor). In its August 28 letter, OPC indicated that it does not believe the full cost should be approved at this time. OPC has proposed that a 1-year program would allow the Utility to replace the meters that show possible failure. Staff believes the Utility's 4-year plan is reasonable. However, pursuant to Section 367.081(2)(a)(2), F.S., which anticipates that pro forma projects will typically be completed within 24 months after the end of the test year, staff believes it would be more appropriate to only include the first year costs at this time. It is anticipated that all of the Utility's pro forma projects, including the first year of the meter replacement program, will be completed within the 24-month timeframe. Staff is concerned that extending the time period out an additional 3 years would unnecessarily delay the Utility's

2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

implementation of the Phase II rate increase. Therefore, staff believes it would appropriate to include $29,915 in the Phase II revenue requirement.

Based upon a review of the Utility's federal income tax information, staff determined that UPIS should be decreased by $52,151 to reflect the retirement of the original cost of the utility building. Also, based on a pro-rated share of existing meters, staff decreased UPIS by $5,211 to reflect retirement of the replaced meters. Following the application of applicable retirements, the net increase to plant for these projects is $376,053, resulting in a UPIS balance of $2,031,229. As discussed in Issue 4, the Utility has arranged financing for several of the pro forma projects and those adjustments were incorporated into the Phase I capital structure. Staff has applied the same capital structure to the remaining pro forma projects reflected in Phase II.

As discussed above, the primary purpose of the utility building is to house utility equipment, however, the new building will also include additional space for an office. At some point in the future, the Utility will move its office from the mainland to the new utility building. Consequently, staff has made a pro forma adjustment to reduce rent expense by $3,510 to remove office rent for the Utility's current office space. Also, the Utility has been advised that it will be required to obtain additional insurance on the new office building, including flood insurance. Staff has increased insurance expense by $3,272 to reflect the increase in insurance on the new building. Once the Utility has fully converted to the remote read meters, there may be a decrease in the Utility's meter expense. However, since it will be a number of years before that occurs, staff does not believe a reduction in meter reading expense is warranted at this time. Staff's net adjustment to the Phase II operations and maintenance expense is a decrease of $238. In addition, staff has adjusted depreciation expense to reflect the pro forma additions and retirements, resulting in an increase of $14,001. Also, staff has increased TOTI by $5,939 to reflect the increase in utility property taxes resulting from the net plant additions, and by $1,999 to reflect RAFs of 4.5 percent on the change in revenues, for a total TOTI increase of $7,938. Staff's total adjustment to operating expenses, including additional RAFS, is $21,701, resulting in total operating expenses of $319,303.

The Utility's Phase II revenue requirement should be $375,832, representing a 13.40 percent increase over the recommended Phase I revenue requirement. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

Implementation of the Phase II rates are conditioned upon Little Gasparilla completing the pro forma items within 12 months of the issuance of the consummating order. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made related to the items discussed in Issue 10, and documentation has been provided related to the SEP Plan discussed in Issue 6. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 11: What is the appropriate initial customer deposit for Little Gasparilla?

Recommendation: The appropriate initial customer deposit should be $150 for the residential 5/8" x 3/4" meter size. 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. The Utility should file revised tariff sheets consistent with the Commission's vote. The initial customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Bruce)

Staff Analysis: Rule 25-30.311, Florida Administrative Code (F.A.C.), contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each company's tariff shall contain their specific criteria for determining the amount of initial deposits. Little Gasparilla's current tariff does not authorize the Utility to collect initial customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of rate payers. In addition, collection of customer deposits is consistent with one of the fundamental principles of rate making - ensuring that the cost of providing service is recovered from the cost causer.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer's usage and the Utility's collection of the revenues associated with that usage. Commission practice has been to set initial customer deposits equal to two months bills based on the average consumption for a 12-month period for each class of customers. Staff reviewed the customer usage data and developed initial customer deposits for new residential and general service customers based on two times the average consumption.

Staff recommends that the appropriate initial customer deposit should be $150 for the residential 5/8" x 3/4" meter size. 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. The Utility should file revised tariff sheets consistent with the Commission's vote. The initial customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 12: Should Little Gasparilla's existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: Yes. Staff recommends that Little Gasparilla's existing service availability charges be revised. A meter installation charge of $577 for a 5/8" x 3/4" meter, a tap-in charge of $239 per ERC, and a main extension charge of $1,550 per ERC should be approved. In addition, the Utility should be authorized to collect the system development charges required by Charlotte County for all new connections after the interconnection. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. (Bruce)

Staff Analysis: Service availability charges for Little Gasparilla were last approved in Docket No. 130052-WU.[12] The Utility is currently authorized to charge a system capacity charge of $4,500. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system.

Main Extension Charge

A main extension charge allows the Utility to recover a portion of the cost of the Utility's transmission and distribution system from future customers. Based on the average historical cost of the existing distribution system and the proposed cost of the subaqueous crossing, staff recommends a main extension charge of $1,550 per ERC. Staff's recommended main extension charge is consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the Utility's lines should be contributed. The proposed main extension charge will allow the Utility to recover a portion of its investment in the transmission and distribution system from future connections consistent with Rule 25-30.580 (2), F.A.C.

Meter Installation and Tap-In Charge

Currently, Little Gasparilla does not have an approved charge for meter installations or tap-ins. The Utility provided cost justification of $816 for a combined meter installation and tap-in charge for new connections. As previously discussed, the Utility plans on installing remote read meters. A meter installation charge is designed to recover the cost of the meter and the installation. The tap-in charge is designed to recover the cost of the line extending from the customer's property to the meter. Staff evaluated the cost justification to determine reasonableness and to separate the costs into a meter installation charge and a tap-in charge.

---

[12] See Order No. PSC-13-0177-PAA-WU, issued April 29, 2013, Docket No. 130052-WU, In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.

Based on staff's review of the cost justification, staff determined that the cost for a new tap-in is $239, which includes $89 for materials and $150 for labor. The cost to install a new 5/8" x 3/4" remote read meter is $577, which includes $527 for materials and $50 for labor. Unlike the costs to replace a meter for an existing customer, the Utility's requested meter installation charge includes the cost of the additional labor and materials needed for a new customer to connect to the system. Therefore, staff recommends that meter installation and tap-in charges of $577 and $239, respectively, should be approved.

Charlotte County System Development Charge

The Charlotte County Utility Interconnect Agreement (Interconnect Agreement) with Little Gasparilla dated February 25, 2014, provides that once service has been activated between Charlotte County's system and Little Gasparilla's system, the Utility shall pay to Charlotte County all applicable charges including a plant capacity charge, transmission capacity charge, and an accrued guaranteed revenue fee for each additional customer connecting to the Little Gasparilla system after the interconnection. Currently, Charlotte County has a plant capacity charge of $910, a transmission capacity charge of $380, and an accrued guaranteed revenue fee of $1,117, for a total of $2,407. Therefore, staff recommends that, consistent with the Interconnect Agreement, when any new customer connects to Little Gasparilla after the interconnection, the system development charges collected from new connections should be remitted to Charlotte County.

Summary

Based on the foregoing, staff recommends that Little Gasparilla's existing service availability charges be revised. A meter installation charge of $577 for a 5/8" x 3/4" meter, a tap-in charge of $239 per ERC, and a main extension charge of $1,550 per ERC should be approved. In addition, the Utility should be authorized to collect the system development charges required by Charlotte County for all new connections after the interconnections. The approved service availability charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C.

Issue 13: Should the recommended rates be approved for Little Gasparilla on a temporary basis, subject to refund. in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates for Phase I should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Little Gasparilla should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Golden, Vogel)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Little Gasparilla should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $44,845. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1) The Commission approves the rate increase; or
2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect, and,

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
2) The escrow account shall be an interest bearing account;
3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt:
7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
8) The Commission Clerk must be a signatory to the escrow agreement; and
9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 14: Should Little Gasparilla be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted all applicable NARUC USOA primary accounts to reflect the Commission-approved adjustments?

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

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

Issue 15: 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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the SEP has been established and contributions have begun, Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the SEP has been established and contributions have begun, Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 SCHEDULE OF WATER RATE BASE (PHASE I)		SCHEDULE NO. 1-A DOCKET NO. 130265-WU		
	DESCRIPTION	**BALANCE PER UTILITY**	**STAFF ADJUST. TO UTIL. BAL.**	**BALANCE PER STAFF**
1.	UTILITY PLANT IN SERVICE	$1,378,288	$276,888	$1,655,176
2.	LAND & LAND RIGHTS	52,475	0	52,475
3.	NON-USED AND USEFUL COMPONENTS	0	(110,295)	(110,295)
4.	CIAC	0	(479,873)	(479,873)
5.	ACCUMULATED DEPRECIATION	(1,045,035)	347,379	(697,656)
6.	AMORTIZATION OF CIAC	0	92,092	92,092
7.	WORKING CAPITAL ALLOWANCE	0	26,205	26,205
8.	WATER RATE BASE	$385,728	$152,395	$538,123

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO RATE BASE (PHASE I)		SCHEDULE NO. 1-B DOCKET NO. 130265-WU
	UTILITY PLANT IN SERVICE	
1.	To reclassify meters from expense Accts. 620 & 636 to Acct. 334.	$2,000
2.	To reclassify structures and improvements from expense Acct. 675 to Acct. 304.	541
3.	To remove unsupported plant additions from 2002 through 2013.	(32,209)
4.	To reflect pro forma plant addition for generator repair to Acct. No. 310.	1,326
5.	To reflect pro forma plant addition for golf cart to Acct. No. 341.	4,500
6.	To reflect pro forma plant addition for backhoe to Acct. No. 345.	30,878
7.	To reflect deferred engineering fees for interconnection to Acct. 309.	21,099
8.	To reflect plant additions for permitting and legal fees to Acct. 309.	43,391
9.	To reflect pro forma plant addition for subaqueous pipeline to Acct. 309.	679,775
10.	To reflect retirement of plant replaced by subaqueous pipeline/interconnection.	(558,199)
11.	To reflect pro forma plant addition of north line extension.	86,200
12.	To reflect an averaging adjustment.	(2,414)
	Total	$276,888
	NON-USED AND USEFUL PLANT	
1.	To reflect non-used and useful plant.	($181,393)
2.	To reflect non-used and useful accumulated depreciation.	71,098
	Total	($110,295)
	CIAC	
1.	To reflect appropriate allocation of CIAC.	($637,600)
2.	To reflect pro forma addition of CIAC related to golf cart purchase.	(4,500)
3.	To reflect retirement of CIAC related to plant retirements.	301,955
4.	To reflect an averaging adjustment.	(139,728)
	Total	($479,873)
	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	$598,226
2.	To reflect an averaging adjustment.	(250,847)
	Total	$347,379
	AMORTIZATION OF CIAC	
1.	To reflect appropriate amortization of CIAC.	$130,936
2.	To reflect retirement of amortization of CIAC related to plant retirements.	(61,916)
3.	To reflect an averaging adjustment.	23,072
	Total	$92,092
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O&M expenses.	$26,205

LITTLE GASPARILLA WATER UTILITY, INC. **SCHEDULE NO. 2**
TEST YEAR ENDED 09/30/13 **DOCKET NO. 130265-WU**
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON STOCK	$1,000	$0	$1,000					
2.	RETAINED EARNINGS	0	0	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	0	81,000	81,000					
	TOTAL COMMON EQUITY	$1,000	$81,000	$82,000	($52,675)	$29,325	5.45%	11.16%	0.61%
5.	LONG TERM DEBT	$54,460	$0	$54,460	($34,984)	$19,476	3.62%	6.75%	0.24%
6.	LONG TERM DEBT	608,775	0	608,775	(391,065)	217,710	40.46%	8.00%	3.24%
7.	LONG TERM DEBT		405,000	405,000	(260,164)	144,836	26.91%	4.70%	1.27%
8.	LONG TERM DEBT		324,000	324,000	(208,131)	115,869	21.53%	4.10%	0.88%
9.	LONG TERM DEBT		30,503	30,503	(19,594)	10,908	2.03%	2.31%	0.05%
10.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
11.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
	TOTAL DEBT	$663,235	$759,503	$1,422,738	($913,939)	$508,799	94.55%		
12.	CUSTOMER DEPOSITS	$0	$0	$0	$0	$0	0.00%	2.00%	0.00%
13.	TOTAL	$664,235	$840,503	$1,504,738	($966,614)	$538,123	100.00%		6.28%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	6.23%	6.34%

LITTLE GASPARILLA WATER UTILITY, INC. **SCHEDULE NO. 3-A**
TEST YEAR ENDED 09/30/13 **DOCKET NO. 130265-WU**
SCHEDULE OF WATER OPERATING INCOME (PHASE I)

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.**OPERATING REVENUES**	$276,331	($12,182)	$264,149	$67,267	$331,416
				25.47%	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	$173,362	$36,275	$209,637	$0	$209,637
3. DEPRECIATION (NET)	26,214	15,729	41,943	0	41,943
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	33,027	9,969	42,996	3,027	46,023
6. INCOME TAXES	0	0	0	0	0
7.**TOTAL OPERATING EXPENSES**	$232,603	$61,972	$294,575	$3,027	$297,602
8.**OPERATING INCOME/(LOSS)**	$43,728		($30,426)		$33,814
9.**WATER RATE BASE**	$385,728		$538,123		$538,123
10.**RATE OF RETURN**	11.34%		(5.65%)		6.28%

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 130265-WU Page 1 of 3
	OPERATING REVENUES	
1.	To reflect the appropriate test year revenues.	(13,162)
2.	To reflect the appropriate test year miscellaneous service revenues.	980
	Subtotal	(12,182)
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Employees (601)	
	a. To reclassify test year meter reading expense from Acct. No. 603.	$6,500
	b. To remove additional month of meter reading expense from test year.	($500)
	c. To reclassify test year operator trainee salary expense from Acct. No. 603.	$3,705
	d. To reflect appropriate operator trainee annual salary.	($10,423)
	Subtotal	($718)
2.	Salaries and Wages - Officers (603)	
	a. To reclassify test year meter reading expense to Acct. No. 601.	($6,500)
	b. To reclassify test year operator trainee salary expense to Acct. No. 601.	($3,705)
	c. To reflect pro forma addition of president's salary.	$9,510
	d. To reflect appropriate vice president's salary.	$1,405
	Subtotal	$710
3.	Employee Pensions and Benefits (604)	
	a. To reflect annual contribution to Simplified Employee Pension Plan	$11,672
4.	Purchased Water (610)	
	a. To reflect pro forma purchased water expense.	$54,325
	b. To reflect 7% excessive unaccounted for water adjustment.	(3,803)
	Subtotal	$50,522
5.	Purchased Power (615)	
	a. To remove late fees.	($95)
	b. To reflect pro forma reduction in purchased power following interconnection.	(14,953)
	c. To reflect 7% excessive unaccounted for water adjustment.	(280)
	Subtotal	($15,328)
6.	Chemicals (618)	
	a. To reflect pro forma reduction in chemicals expense following interconnection.	($1,627)
	b. To reflect 7% excessive unaccounted for water adjustment	(38)
	Subtotal	($1,665)
7.	Materials and Supplies (620)	
	a. To reclassify meter expenses to plant Acct. No. 334.	($1,615)
	b. To reflect appropriate accrual reversal entries for 2011 and 2012.	(608)
	c. To remove unsupported or non-utility expenses.	(1,038)
	d. To reflect pro forma reduction in repairs following interconnection.	(6,784)
	Subtotal	($10,045)

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 130265-WU Page 2 of 3
8.	Contractual Services - Professional (631)	
	a. To reverse out of period accrual adjusting entries for 2011.	$8,851
	b. To reverse out of period adjustment to reclassify 2012 interconnection project preliminary expenses.	11,762
	c. To reclassify interconnection project preliminary expenses to Acct. No. 183 - Preliminary Survey and Investigation Charges.	(7,344)
	d. To reflect 5-year amortization of legal expenses for grandfather certificate application.	(2,643)
	e. To remove unsupported expenses.	(98)
	Subtotal	$10,528
9.	Contractual Services - Testing (635)	
	a. To remove December 2012 accrual that was not reversed in the test year.	($39)
	b. To reflect 3-year amortization of triennial water tests ($460/3 and $1,850/3).	(1,540)
	Subtotal	($1,579)
10.	Contractual Services - Other (636)	
	a. To reclassify meter expenses to plant Acct. No. 334.	($385)
	b. To reflect appropriate test year plant operator expenses.	(625)
	c. To remove out of period expenses for weed removal.	(315)
	d. To reflect pro forma adjustment for generator maintenance service contract.	290
	e. To reflect pro forma reduction in contractual repairs after interconnection.	(2,660)
	Subtotal	($3,695)
11.	Transportation Expense (650)	
	a. To reflect 2-year amortization of boat sanding and painting repairs.	($253)
	b. To reflect pro forma amortization of 2-year boat registration.	113
	c. To reflect pro forma increase in fuel for backhoe.	480
	d. To reflect pro forma annual maintenance expense for backhoe.	250
	e. To reflect pro forma annual maintenance for golf cart.	150
	f. To reflect 5-year amortization of non-recurring auto repair.	(136)
	g. To remove unsupported, non-utility, or non-test year expenses.	(1,589)
	Subtotal	($985)
12.	Insurance Expenses (655)	
	a. To remove non-utility health care expense.	($1,457)
	b. To remove life insurance and other expenses without support	(2,072)
	c. To reflect pro forma insurance on backhoe.	125
	d. To reflect pro forma insurance on truck.	565
	Subtotal	($2,839)
13.	Regulatory Commission Expense (665)	
	a. To reflect 5-year amortization of grandfather certificate application fee.	($800)
	b. To reflect 4-year amortization of rate case expense ($13,382/4).	3,346
	Subtotal	$2,546

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO OPERATING INCOME (PHASE I)		SCHEDULE NO. 3-B DOCKET NO. 130265-WU Page 3 of 3
14.	Miscellaneous Expense (675)	
	a. To reverse out of period accrual reversal entry for 2011.	$217
	b. To reclassify construction materials to plant Acct. No. 304.	(541)
	c. To reflect appropriate test year telephone expense.	(940)
	d. To reflect appropriate expense for annual drinking water license renewal.	(500)
	e. To remove unsupported or non-utility expenses.	(1,086)
	Subtotal	($2,850)
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$36,275
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	$32,500
2.	To reflect non-used and useful depreciation expense.	(4,774)
3.	To reflect the appropriate amortization of CIAC.	(11,997)
	Total	$15,729
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate test year RAFs.	($55)
2.	To reflect appropriate test year utility property taxes.	$170
3.	To reflect removal of penalty from test year utility property taxes.	($558)
4.	To reflect pro forma increase to utility property taxes.	$13,152
5.	To reflect non-used and useful utility property taxes.	($3,073)
6.	To reflect appropriate payroll taxes.	333
	Total	$9,969

LITTLE GASPARILLA WATER UTILITY, INC.			SCHEDULE NO. 3-C
TEST YEAR ENDED 09/30/13			DOCKET NO. 130265-WU
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$23,383	($718)	$22,665
(603) SALARIES AND WAGES - OFFICERS	70,000	710	70,710
(604) EMPLOYEE PENSIONS AND BENEFITS	0	11,672	11,672
(610) PURCHASED WATER	0	50,522	50,522
(615) PURCHASED POWER	19,048	(15,328)	3,720
(616) FUEL FOR POWER PRODUCTION	1,512	0	1,512
(618) CHEMICALS	2,169	(1,665)	504
(620) MATERIALS AND SUPPLIES	12,045	(10,045)	2,000
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	(5,868)	10,528	4,660
(635) CONTRACTUAL SERVICES - TESTING	3,508	(1,579)	1,929
(636) CONTRACTUAL SERVICES - OTHER	12,952	(3,695)	9,257
(640) RENTS	5,910	0	5,910
(650) TRANSPORTATION EXPENSE	7,344	(985)	6,359
(655) INSURANCE EXPENSE	11,547	(2,839)	8,708
(665) REGULATORY COMMISSION EXPENSE	1,000	2,546	3,546
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	8,812	(2,850)	5,962
	$173,362	$36,275	$209,637

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 MONTHLY WATER RATES (PHASE I)			SCHEDULE NO. 4 DOCKET NO. 130265-WU
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size			
5/8"X3/4"	$49.80	$62.53	$0.67
3/4"		$93.80	$1.00
1"		$156.33	$1.67
1-1/2"		$312.65	$3.35
2"		$500.24	$5.35
3"		$1,000.48	$10.71
4"		$1,563.25	$16.73
6"		$3,126.50	$33.45
Charge per 1,000 gallons - Residential and General Service	$4.81	$6.04	$0.06
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
2,000 Gallons	$59.42	$74.61	
5,000 Gallons	$73.85	$92.73	
8,000 Gallons	$88.28	$110.85	

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 SCHEDULE OF WATER RATE BASE (PHASE II)				SCHEDULE NO. 5-A DOCKET NO. 130265-WU
	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$1,655,176	$376,053	$2,031,229
2.	LAND & LAND RIGHTS	52,475	0	52,475
3.	NON-USED AND USEFUL COMPONENTS	(110,295)	0	(110,295)
4.	CIAC	(479,873)	0	(479,873)
5.	ACCUMULATED DEPRECIATION	(697,656)	(14,001)	(711,657)
6.	AMORTIZATION OF CIAC	92,092	0	92,092
7.	WORKING CAPITAL ALLOWANCE	26,205	(30)	26,175
8.	WATER RATE BASE	$538,123	$362,022	$900,146

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO RATE BASE (PHASE II)		SCHEDULE NO. 5-B DOCKET NO. 130265-WU
	UTILITY PLANT IN SERVICE	
1.	To reflect pro forma plant addition for new utility building to Acct. 304.	$403,500
2.	To reflect retirement of original cost of utility building.	(52,151)
3.	To reflect pro forma drive-by meter change out program (year 1) to Acct. 334.	29,915
4.	To reflect retirement of replaced meters.	(5,211)
	Total	$376,053
	ACCUMULATED DEPRECIATION	
	To reflect accumulated depreciation on pro forma plant additions.	($14,001)
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O&M expenses.	($30)

LITTLE GASPARILLA WATER UTILITY, INC. — **SCHEDULE NO. 6**
TEST YEAR ENDED 09/30/13 — **DOCKET NO. 130265-WU**
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON STOCK	$1,000	$0	$1,000					
2.	RETAINED EARNINGS	0	0	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	81,0000	0	81,000					
	TOTAL COMMON EQUITY	$82,000	$0	$82,000	($32,947)	$49,053	5.45%	11.16%	0.61%
5.	LONG TERM DEBT	$54,460	$0	$54,460	($21,882)	$32,578	3.62%	6.75%	0.24%
6.	LONG TERM DEBT	608,775	0	608,775	(244,601)	364,174	40.46%	8.00%	3.24%
7.	LONG TERM DEBT	405,000	0	405,000	(162,726)	242,274	26.91%	4.70%	1.27%
8.	LONG TERM DEBT	324,000	0	324,000	(130,181)	193,819	21.53%	4.10%	0.88%
9.	LONG TERM DEBT	30,503	0	30,503	(12,256)	18,247	2.03%	2.31%	0.05%
10.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
11.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
	TOTAL DEBT	$1,422,738	$0	$1,422,738	($571,645)	$851,093	94.55%		
12.	CUSTOMER DEPOSITS	$0	$0	$0	$0	$0	0.00%	2.00%	0.00%
13.	TOTAL	$1,504,738	$0	$1,504,738	($604,592)	$900,146	100.00%		6.28%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	6.23%	6.34%

LITTLE GASPARILLA WATER UTILITY, INC. — **SCHEDULE NO. 7-A**
TEST YEAR ENDED 09/30/13 — **DOCKET NO. 130265-WU**
SCHEDULE OF WATER OPERATING INCOME (PHASE II)

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.OPERATING REVENUES	$331,416	$0	$331,416	$44,416	$375,832
				13.40%	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	$209,637	($238)	$209,399	$0	$209,399
3. DEPRECIATION (NET)	41,943	14,001	55,944	0	55,944
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	46,023	5,939	51,962	1,999	53,960
6. INCOME TAXES	0	0	0	0	0
7.TOTAL OPERATING EXPENSES	$297,602	$19,702	$317,304	$1,999	$319,303
8.OPERATING INCOME/(LOSS)	$33,814		$14,112		$56,529
9.WATER RATE BASE	$538,123		$900,146		$900,146
10.RATE OF RETURN	6.28%		1.57%		6.28%

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 ADJUSTMENTS TO OPERATING INCOME (PHASE II)		SCHEDULE NO. 7-B DOCKET NO. 130265-WU
	OPERATION AND MAINTENANCE EXPENSES	
1.	Rents (640)	
	a. To reflect pro forma reduction in office rent after new utility building construction.	($3,510)
2.	Insurance Expenses (655)	
	a. To reflect pro forma increase in insurance on new utility building.	$3,272
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($238)
	DEPRECIATION EXPENSE	
	To reflect depreciation expense for pro forma plant additions and retirements.	$14,001
	TAXES OTHER THAN INCOME	
	To reflect additional utility property taxes for net pro forma plant.	$5,939

LITTLE GASPARILLA WATER UTILITY, INC.			SCHEDULE NO. 7-C
TEST YEAR ENDED 09/30/13			DOCKET NO. 130265-WU
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)			
	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$22,665	$0	$22,665
(603) SALARIES AND WAGES - OFFICERS	70,710	0	70,710
(604) EMPLOYEE PENSIONS AND BENEFITS	11,672	0	11,672
(610) PURCHASED WATER	50,522	0	50,522
(615) PURCHASED POWER	3,720	0	3,720
(616) FUEL FOR POWER PRODUCTION	1,512	0	1,512
(618) CHEMICALS	504	0	504
(620) MATERIALS AND SUPPLIES	2,000	0	2,000
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,660	0	4,660
(635) CONTRACTUAL SERVICES - TESTING	1,929	0	1,929
(636) CONTRACTUAL SERVICES - OTHER	9,257	0	9,257
(640) RENTS	5,910	(3,510)	2,400
(650) TRANSPORTATION EXPENSE	6,359	0	6,359
(655) INSURANCE EXPENSE	8,708	3,272	11,980
(665) REGULATORY COMMISSION EXPENSE	3,546	0	3,546
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	5,962	0	5,962
	$209,637	($238)	$209,399

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 MONTHLY WATER RATES (PHASE II)		SCHEDULE NO. 8 DOCKET NO. 130265-WU
	STAFF'S RECOMMENDED PHASE I RATES	STAFF'S RECOMMENDED PHASE II RATES
Residential and General Service		
Base Facility Charge by Meter Size		
5/8"X3/4"	$62.53	$71.12
3/4"	$93.80	$106.68
1"	$156.33	$177.80
1-1/2"	$312.65	$355.60
2"	$500.24	$568.96
3"	$1,000.48	$1,137.92
4"	$1,563.25	$1,778.00
6"	$3,126.50	$3,556.00
Charge per 1,000 Gallons - Residential and General Service	$6.04	$6.87
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
2,000 Gallons	$74.61	$84.86
5,000 Gallons	$92.73	$105.47
8,000 Gallons	$110.85	$126.08