

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Charlotte County by Little Gasparilla Water
Utility, Inc.

DOCKET NO. 130265-WU
ORDER NO. PSC-14-0626-PAA-WU
ISSUED: October 29, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF
PROPOSED AGENCY ACTION ORDER
ESTABLISHING RATES
AND
FINAL ORDER
GRANTING TEMPORARY RATES AND ESTABLISHING RATE CASE EXPENSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that, except as otherwise noted, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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.

¹ The homeowner's association provides service solely to members and is exempt pursuant to Section 367.022 (7), F.S.

Little Gasparilla has been in existence since 1986 and was granted an original certificate in 2001.² Effective September 25, 2007, this Commission's jurisdiction was rescinded by Charlotte County, and the Utility's certificate was cancelled.³ Subsequently, in 2013, Charlotte County transferred jurisdiction back to this Commission. 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 this Commission.⁵ The Utility filed its application in the instant docket 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 that is being done in order 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.

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

Analysis and Decision

I. Water Quality

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, we must determine the overall quality of service provided by a utility. This determination is based on 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 provides 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 must be considered. In addition, input from the DEP and health department officials and customer comments or complaints are 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

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.

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.

The Utility is planning a subaqueous interconnection with 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 provides that Little Gasparilla is to 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 chlorides from the source water. The Utility indicated that the interconnection and purchase of bulk water will improve the water quality on the island and 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 soon. Upon review, we find the interconnection with CCU to be prudent because 1) the costs are reasonable when compared to the costs to repair the existing WTP, 2) the quality of the water will improve, and 3) since R/O plants are more expensive to operate and maintain than other types of WTP, the Utility is expected to realize long-term cost benefits.

We 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 will 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. We contacted DEP about the chemical analysis and DEP noted that the source water may be the cause of the high Chloride level. The interconnection with Charlotte County is expected to improve the Utility's water source.

We 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, our staff observed that one of the wells was leaking and verified that it was the same well noted in the DEP's reports. The Utility has stated that the safety equipment was not ordered because it will no longer be needed when the interconnection

with CCU is completed. However, if the interconnection is not complete by the next scheduled DEP survey, the Utility will have the proper safety equipment in place.

The Utility's Attempt to Address Customer Satisfaction

We reviewed our complaint records and there were no complaints recorded during the test year. The Utility received one complaint directly from a customer 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), two concerned the quality of water, two concerned leaks in the pipes and valves not closing, and one concerned meters and alleged high readings. The Utility responded to the complaints by providing copies of bills and billing histories, explaining charges, re-reading the meters, providing information in response to water quality concerns, checking for leaks, and repairing 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 who 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 our staff's report lacked detail.

Ten residents spoke, who are not customers of the Utility. They have their own water systems and were concerned about being required to connect to the Utility and the high rates. These customers addressed a Charlotte County ordinance which provides that, 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. However, the enforcement of this ordinance is exclusively a county jurisdictional issue. For purposes of developing rates and charges in this Order, we have included a projection of new customer growth of which some portion may or may not come from the 135 residents who may be affected by the ordinance.

We 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. Utility customers expressed concern regarding rate increases and the mandatory hook up. Upon review, it appears the Utility has attempted to address its customer's concerns.

Summary

Upon review, we find that the 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, we shall not require a reduction in the return on equity (ROE) or any other follow-up measures due to the Utility's efforts to improve and maintain the quality of service for the existing customers of Little Gasparilla.

II. Used and Useful (U&U)

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. Because there have been no prior rate cases for this Utility before this Commission, 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., defines Excessive Unaccounted for Water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses⁶ are necessary, we consider the reasons for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. EUW 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 yields EUW of 7 percent. Seven percent of the water produced is 720,370 gallons or 1,974 gallons per day (gpd). The Utility asserts that the EUW could be the result of flushing that was not recorded and old meters that are not registering properly.

We observe 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.

⁶ Such as purchased electrical power and chemicals costs.

The Utility noted that it does sometimes have to estimate some meter readings because a meter is under water; this issue will be resolved by using remote read meters. Upon review, we find that the meter replacement program is prudent and reasonable and will reduce the amount of EUW for the Utility.

WTP U&U and Storage U&U

As discussed above under the heading “Water Quality,” 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 below under the heading “Test Year Rate Base” As a result of the retirements, we do not address 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. The Rule is applicable in this situation, in that the single interconnection is equivalent to a single well. Therefore, the subaqueous interconnection pipeline shall be considered 100 percent U&U.

Distribution System U&U

Pursuant to Rule 25-30.431, F.A.C., the U&U calculation for the distribution system is based on the average customers during the test year plus the growth allowance 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 below under the heading “Test Year Rate Base,” 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

We do not establish U&U percentages for Little Gasparilla’s water treatment plant and storage facilities because these assets will be retired as a result of the pending interconnection with Charlotte County. Little Gasparilla’s subaqueous interconnection pipeline shall be considered 100 percent U&U and the water distribution system shall be considered 57 percent U&U. A seven percent adjustment to purchased power, chemicals, and purchased water shall be made for excessive unaccounted for water.

III. Test Year Rate Base

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.⁷ We selected the test year ended September 30, 2013, for the instant rate case and have incorporated adjustments to address concerns expressed in the Office of Public Counsel's (OPC) August 28, 2014 letter. A summary of each component of rate base and the approved adjustments are discussed below.

Utility Plant in Service

The Utility recorded a test year utility plant in service (UPIS) balance of \$1,378,288 as of September 30, 2013. Based on an audit, we determined that the original plant and a significant portion of plant additions could not be verified because of a lack of records. It appears 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 above under the heading "Water Quality," 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, our 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 this Commission or Charlotte County between 2000 and 2013. In addition, our staff confirmed the existence of major plant components during an engineering inspection.

While the use of tax returns and annual reports is not ideal, we have previously approved this approach to calculate UPIS when original records were not available.⁸ 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. While this Commission is not required to accept rate case information approved by other governmental entities, in this case we find that it helps to further support the consistency in the Utility's available information.

As will be discussed below under the heading "Phase II," we shall approve a two-phased rate increase to address several of the Utility's pro forma requests. As this case has progressed, many of the Utility's 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, we have 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 below under the heading, "Return on Equity." In addition, construction of the subaqueous pipeline and county interconnect, and north line

⁷ See Charlotte County Board of County Commissioner's Resolution Number 2012-032, issued June 12, 2012.

⁸ 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.

extension was scheduled to begin in October and be completed within a month. Therefore, we have 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. Our adjustments to UPIS are shown in Table 3-1 below, following a discussion of several concerns raised by OPC.

In its August 28, 2014 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 letter, OPC suggested that \$9,925 of the \$21,099 deferred engineering costs be excluded for lack of support based upon our audit. However, subsequent to the audit, the Utility provided additional supporting documentation for these costs. Upon review, we find that it is appropriate to allow the total cost, and have 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. We find that denying recovery of these expenses could possibly discourage this type of joint cost savings effort in the future. We reviewed the legal fees questioned by OPC and find 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, we find that it is appropriate to exclude that portion of the total cost pending additional supporting documentation. Therefore, we find that it is 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 northern portion of the service area have requested service.

In its 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 that those costs should be excluded from the county interconnect project, but did not identify any specific costs. We identified \$16,700 of the total \$51,700 that appears to be related to the north line extension. Upon review, we agree that it is 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, we 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, we find that it is 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, we shall increase UPIS by \$86,200 to reflect the pro forma cost of the north line extension. There are no plant retirements associated with this project.

We approve 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	<u>\$276,888</u>

Based on these adjustments, the net adjustment to UPIS is an increase of \$276,888. We approve a UPIS balance of \$1,655,176. The Utility shall 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, we approve a land and land rights balance of \$52,475.

Non-Used and Useful Plant – As discussed above under the heading “Used and Useful,” 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 shall 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 this Commission or Charlotte County between 2000 and 2013, the Utility’s books for 2011 through 2013, and the Utility’s 2013 billing records, we calculated test year CIAC of \$637,600. We also made a pro forma adjustment to increase CIAC by \$4,500 to reflect the new customer connection discussed above. In addition, we reduced CIAC by \$301,955 to retire the CIAC associated with the plant retirements resulting from the county interconnect. Lastly, we increased CIAC by \$139,728 to reflect an averaging adjustment. We approve 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 this Commission’s practice, depreciation begins when the plant component is first placed into service. Accordingly, using the prescribed rates set forth in Rule 25-30.140, F.A.C., we calculated the annual accruals to accumulated depreciation beginning with the year 1987 when the plant was first placed in service. Based on our adjustments to the plant balances, depreciation rates, and incorporation of applicable retirements, we determined that the accumulated depreciation must be decreased by \$598,226 to reflect the correct balance for the test year. We also increased this account by \$250,847 to reflect an averaging adjustment. Our 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 using composite depreciation rates. As a result, accumulated amortization of CIAC shall be increased by \$130,936. Our adjustment includes amortization of CIAC for the \$4,500 pro forma CIAC adjustment discussed earlier. In addition, we decreased this account by \$61,916 to retire the accumulated amortization of CIAC associated with the CIAC retirement shown above. We also increased this account by \$23,072 to reflect an averaging adjustment, resulting in a net adjustment of \$92,092. Therefore, we shall approve 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., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we approve a working capital allowance of \$26,205 (based on O&M expense of \$209,637/8) and shall increase the working capital allowance by \$26,205.

Rate Base Summary – Based on the foregoing, we find that the appropriate average test year rate base is \$538,123. The Utility shall 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. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

IV. Return on Equity

Based on our audit, the Utility's test year capital structure reflected common equity of \$1,000 and long-term debt of \$663,235. Upon review, we find that no adjustments are necessary to the test year.

As discussed above under the headings "Water Quality" and "Test Year Rate Base," 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. We increased long-term debt by \$405,000 and \$324,000 to cover the bank and SBA portions of the loan, respectively. In addition, we 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, we increased the capital structure by \$30,503 to reflect the additional long-term debt for the backhoe. Our 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 our approved rate base. The appropriate ROE is 11.16 percent based upon our approved leverage formula currently in effect.⁹ As discussed under the heading, "Water Quality," we found that the Utility's quality of service is marginal, but that no punitive measures should be taken. Therefore, we are making no adjustments to the ROE related to quality of service. Upon review, we approve 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.

V. Test Year Revenues

Little Gasparilla recorded total test year revenues of \$276,331, which consists of only service revenues. We 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. We 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. We reviewed the Utility's billing determinants, applied the rates that were in effect during the test year, and determined that the service revenues must be increased by \$5,315.

⁹ 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.

Service revenues also must be increased by \$1,228 to impute revenues for a customer issued credit in exchange for a property easement. Moreover, the Utility did not record late payment charges of \$980 collected during the test year. We increased test year revenues by \$980 to reflect the appropriate miscellaneous revenues. Our 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 foregoing, we find that the appropriate amount of test year revenues for Little Gasparilla's water system is \$264,149.

VI. Operating Expenses

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. We 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. We 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. We agree with OPC and have 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. Our 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. We 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, we 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 the Utility to shut off the water on the unoccupied rental houses, thereby, helping the owners to avoid higher water bills. We compared the Utility's meter reading expense to the experience of other utilities and find it to be reasonable.

We also 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 the operations trainee's hourly rate is too 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. Upon review, we find that it is 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. Upon review, we find it to be appropriate to allow inclusion of a 2 percent pay increase. This increase results in an hourly rate of \$16.32. We decreased this account by \$10,423 to reflect the appropriate operations trainee salary.

In addition, in its August 28 letter, OPC indicated that 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, we disagree 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, we do not find it appropriate to make any additional adjustments at this time. However, we do find it appropriate to reevaluate the required work levels in a future rate proceeding.

Our net adjustment to this account is a decrease of \$718. We approve 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. We decreased this account by \$6,500 to reclassify test year meter reading expense to Account No. 601. We also 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, we find that a meter reading expense of \$6,000 is reasonable and 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, we find it appropriate to allow an hourly rate of \$21. As discussed above, we find it appropriate to allow inclusion of a 2 percent pay increase. This

increase results in an hourly rate of \$21.42. Therefore, we 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 asserts that work requirements will be diminished following interconnection of the system to the county. However, we find that 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. Nonetheless, in response to OPC's concerns, we 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 will result in an annual salary of \$61,405. Based on a review of the AWWA Compensation Survey and the vice president's duties, we find this to be a reasonable salary for this position. Therefore, we increased this account by \$1,405 to reflect the appropriate vice president's salary. Our net adjustment to this account is an increase of \$710. We approve a 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 our approved salaries, a 25 percent annual contribution is \$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.¹⁰ At that time, the maximum contribution level under consideration was 15 percent. Based on the size of the utility, in that case, we found that allowing one half of the maximum contribution level is reasonable, and therefore, allowed a contribution level of 7.5 percent. By Order No. PSC-01-2511-PAA-WS, issued in that case, we noted that this Commission had previously allowed 7.5 percent for a similar sized utility.¹¹ By Order No. PSC-01-1574-PAA-WS, we 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, we required the utilities to provide proof within 90 days of the effective date of the final order that the retirement accounts had been established.

¹⁰ 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.

¹¹ 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.

Currently, the Internal Revenue Service allows employers to contribute a maximum of 25 percent of each employee's pay into an SEP. We agree that OPC's proposal is reasonable based upon our prior decisions; however, we do not find that 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 our methodology of allowing one half of the maximum contribution level to the currently authorized 25 percent maximum results in a contribution level of 12.5 percent. Accordingly, we find it appropriate to allow the Utility to establish an SEP for its employees based upon a contribution level of 12.5 percent. Based upon approved salaries, a 12.5 percent contribution equals \$11,672 annually. We increased this account to reflect the annual SEP contributions, and approve employee pensions and benefits expense of \$11,672.

Consistent with the cases referenced above, we find it 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, we shall allow the Utility additional time to provide the supporting documentation. The Utility shall 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. In the event that the SEP is not implemented, the Phase II rates shall be reduced to remove this expense.

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 we increased this account to reflect that pro forma adjustment. However, as discussed above under the heading “Used and Useful,” we approved an EUW adjustment of 7 percent. Accordingly, we decreased this account by \$3,803 to reflect the EUW adjustment to purchased water. Our net adjustment is an increase of \$50,522. Therefore, we approve a purchased water expense of \$50,522.

Purchased Power (615) – The Utility recorded purchased power expense of \$19,048. We 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, we made a pro forma adjustment to decrease this account by \$14,953 to reflect that savings. However, as discussed above under the heading “Used and Useful,” we approved an EUW adjustment of 7 percent. Therefore, we reduced the adjusted balance by \$280 ($\$4,000 \times .07 = \280) to reflect a 7 percent EUW adjustment. Our net adjustment is a decrease of \$15,328. We approve a 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, we find it appropriate to continue to allow chemicals expense, but at a reduced level. Therefore, we made a pro forma adjustment to reduce this account by \$1,627. In addition, as discussed above under the heading “Used and Useful,” we approved an EUW adjustment of 7 percent. Accordingly, we decreased this account by \$38 to reflect an EUW adjustment of 7

percent on the adjusted balance ($\$542 \times .07 = \38). Our total adjustment is a decrease of \$1,665, and we approve a chemicals expense of \$504.

Materials and Supplies (620) – The Utility recorded materials and supplies expense of \$12,045. We decreased this account by \$1,615 to reclassify meter expenses to plant Acct. No. 334. We also decreased this account by \$608 to reflect appropriate accrual reversal entries. In addition, we 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. We agree 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, we find it appropriate to allow a certain level of this expense going forward. Upon review, we find that an annual expense of \$2,000 is reasonable. Therefore, we 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. Our total adjustment results in a decrease of \$10,045. We approve a 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. We increased this account by \$8,851 to reverse the out of period accrual adjustments for expenses from 2011. In addition, we 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. We decreased this account by \$7,344 to reclassify test year preliminary expenses related to the interconnection project pending completion of the project. We 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, we decreased this account by \$98 to remove unsupported expenses. Our net adjustment is an increase of \$10,528. Therefore, we approve a contractual services – professional expense of \$4,660.

Contractual Services – Testing (635) – The Utility recorded contractual services – testing expense of \$3,508. We decreased this account by \$39 to remove a test year accrual that was not reversed. We also decreased this account by \$1,540 to reflect the 3-year amortization of the triennial water tests. We have 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. Our total adjustment results in a decrease of \$1,579. We approve a 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. We 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, we 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. We have 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 yet known to what extent. Upon review, we find it appropriate to allow the Utility to continue to recover the test year plant operator expense at this time. However, we shall reevaluate the plant operator requirements in a future rate proceeding.

In addition, we decreased this account by \$315 to remove out of period expenses for weed removal. We also 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 asserts will not be needed following completion of the interconnect. We reviewed OPC's proposed reductions and agree that it is reasonable to eliminate the additional repairs on a going forward basis. We decreased this account by \$2,660 to reflect the pro forma reduction in contractual repairs. Our net adjustment to this account is a decrease of \$3,695. Therefore, we approve a 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. We decreased this account by \$253 to reflect the 2-year amortization of the Utility's boat sanding and painting repairs. We increased this account by \$113 to reflect the pro forma 2-year amortization of the Utility's boat registration. As discussed above under the heading "Test Year Rate Base," we approved the Utility's request for pro forma plant additions related to the purchase of a backhoe and golf cart. Accordingly, we approve 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. We also decreased this account by \$136 to reflect the 5-year amortization of a non-recurring auto repair. Finally, we decreased this account by \$1,589 to remove several unsupported, non-utility, or non-test year expenses. Our net adjustment is a decrease of \$985. We approve a transportation expense of \$6,359.

Insurance Expense (655) – The Utility recorded insurance expense of \$11,547 for the test year. We decreased this account by \$1,457 to remove non-utility health care costs. We also decreased this account by \$2,072 to remove life insurance and other unsupported expenses and 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. Our net adjustment is a decrease of \$2,839. We approve an insurance expense 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. We decreased this account by \$800 to reflect the 5-year amortization of this expense. In 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, we 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 our staff's report and recommendation, and attending the customer meeting and agenda conference. We 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 our audit and also to help answer data requests. We agree that the bookkeeper's work on this rate case is beyond the normal workload for that position and, therefore, find it 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. Thus, we recommend total rate case expense of \$13,382 (\$938 + \$1,000 + \$10,295 + 1,150), which, amortized over 4 years, is \$3,346. Our net adjustment to this account is an increase of \$2,546. We approve a regulatory commission expense of \$3,546.

Miscellaneous Expense (675) – The Utility recorded miscellaneous expense of \$8,812. We increased this account by \$217 to reverse an accrual reversal entry that included out of period expenses. We decreased this account by \$541 to reclassify construction materials to plant Acct. No. 304, and also 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, we decreased this account by \$500 to remove the additional fee. Finally, we decreased this account by \$1,086 to remove several unsupported or non-utility expenses. Our net adjustment to this account is a decrease of \$2,850. Therefore, we approve a miscellaneous expense of \$5,962.

Operation and Maintenance Expense (O&M Summary) – Based on the foregoing adjustments, O&M expense shall be increased by \$36,275, resulting in total O&M expense of \$209,637. Our 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. We 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 above under the headings "Used and Useful" and "Test Year Rate Base," we approved several adjustments to reflect non-U&U plant. Accordingly, we decreased depreciation expense by \$4,774 to reflect a non-U&U adjustment. In addition, we calculated amortization of CIAC based on composite rates and determined amortization of CIAC to be \$11,997. Our net adjustment is an increase of \$15,729 (\$32,500 - \$4,774 - \$11,997). Therefore, we approve a net depreciation expense of \$41,943.

Taxes Other Than Income (TOTI) – Little Gasparilla recorded a TOTI balance of \$33,027. We decreased this account by \$55 to reflect the appropriate test year regulatory assessment fees (RAF) and 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. We agree with OPC that the penalty should be removed and,

therefore, we decreased this account by \$558. We also 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. 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 above under the headings “Used and Useful” and “Test Year Rate Base,” we approved several adjustments to reflect non-U&U plant. Accordingly, we decreased this account by \$3,073 to reflect a non-U&U adjustment to utility property taxes. We also increased this account by \$333 to reflect the appropriate payroll taxes. Our net adjustment to test year TOTI is an increase of \$9,969. In addition, as discussed below under the heading “Phase I Revenue Requirement,” revenues have been increased by \$67,267 to reflect the change in revenue required to cover expenses and allow the approved rate of return. As a result, TOTI shall be increased by \$3,027 to reflect RAFs of 4.5 percent of the change in revenues. Therefore, we approve TOTI of \$46,023.

Operating Expenses Summary – The application of our adjustments to Little Gasparilla’s test year operating expenses result in operating expenses of \$297,602. The Utility shall 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; if the SEP has not been implemented, Phase II rates shall be reduced by the expense associated with the SEP. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

VII. Phase I Revenue Requirement

Upon review, Little Gasparilla shall 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

<u>Water Revenue Requirement</u>	
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%

VIII. Rates and Rate Structure

Little Gasparilla is located in Charlotte County in the SWUCA within the SWFWMD. 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. 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 this Commission's practice to convert quarterly billing to monthly billing when appropriate to encourage water conservation. However, the Utility owner has indicated that 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, we do not require a change to monthly billing.

Water Rates

We 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 this Commission's practice.

In this case, we find 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. Upon review, the revenue requirement increase shall 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.

Based on the foregoing, there shall be no change to water rate structure. The water rates for Little Gasparilla shall be increased by 25.56 percent. The approved monthly water rates shown on Schedule No. 4 shall continue to be billed on a quarterly basis. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The Utility shall 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 shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until notice has been received by the customers. Little Gasparilla shall 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 shall immediately notify this Commission in writing.

IX. Rate Case Expense

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 shall 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 shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall also 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 shall 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.

X. Phase II

As discussed above under the heading “Water Quality,” 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, are included in the Phase I revenue requirement. The Utility’s building construction and meter replacement program are scheduled to begin in 2015, and therefore, will be considered in the Phase II revenue requirement discussed later in this Order.

As discussed above under the heading “Water Quality,” we have reviewed the Utility’s last two DEP Sanitary Survey Reports. These reports included “Remarks and Recommendations” (not deficiencies) suggesting that WTP building is deteriorating and 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.

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. Upon review, we find that 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. Upon review, we find that construction of a new structure is prudent, reasonable, and will allow the Utility to serve its customers better.

As discussed above under the heading “Used and Useful,” we found 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. This project will include additional components needed to set up a remote read system. In its August 28 letter, OPC asserted that the full cost of the meter replacement should not be approved at this time. OPC has proposed a 1-year program to allow the Utility to replace the meters that show possible failure. Upon review, we find that 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) we find that it is more appropriate to only consider the first year costs at this time. It is anticipated that the new building and first year of the meter replacement program will be completed within the 24-month timeframe. We are concerned that extending the time period out an additional 3 years to complete the entire meter replacement program will unnecessarily delay the Utility’s implementation of the Phase II rate increase, which is primarily needed to recover the cost of the new building.

However, due to concerns raised about the cost of the new building, we determined that a final decision on the amount of the Phase II revenue requirement and rates shall be made after the Utility has completed the Phase II pro forma projects and the costs have been evaluated. The

Utility shall complete the pro forma items within 12 months of the issuance of the consummating order. The Utility shall be required to submit a copy of the final invoices and cancelled checks for all Phase II pro forma plant items, and documentation to support establishment of the SEP. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility shall immediately notify this Commission in writing. As discussed above under the heading "Operating Expenses," if the SEP is not implemented, Phase II rates shall be reduced by the expense established for that purpose. Once the required information has been submitted by the Utility and evaluated by our staff, a recommendation regarding the appropriate amount of the Phase II revenue requirements and rates shall be considered by this Commission.

XI Initial Customer Deposit

Rule 25-30.311, F.A.C., establishes the criteria for collecting, administering, and refunding customer deposits. At subsection (1), this Rule requires that each company's tariff must contain its 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.

At subsection (7), the Rule 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. This Commission's 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. We reviewed customer usage data and developed initial customer deposits for new residential and general service customers based on two times the average consumption.

Upon review, we find that the appropriate initial customer deposit shall 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 shall be two times the average estimated bill for water. The Utility shall file revised tariff sheets consistent with our decision. The initial customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets.

XII. Service Availability Charges

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.

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.

Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not to 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.

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, we shall approve a main extension charge of \$1,550 per ERC. This charge is consistent with the requirements of Rule 25-30.580, F.A.C. 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.

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. We evaluated the cost justification to determine reasonableness and to separate the costs into a meter installation charge and a tap-in charge.

Based on our review of the cost justification, we 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. Upon review, the meter installation and tap-in charges of \$577 and \$239, respectively, shall be approved.

The February 25, 2014 Charlotte County Utility Interconnect Agreement (Interconnect Agreement) with Little Gasparilla 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, consistent with the Interconnect Agreement, when any new customer connects to Little Gasparilla after the interconnection, the system development charges collected from new connections shall be remitted to Charlotte County.

Based on the foregoing, Little Gasparilla's existing service availability charges shall 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 equivalent residential connection (ERC) are hereby approved. In addition, the Utility is hereby authorized to collect the system development

charges required by Charlotte County for all new connections after the interconnection. The approved service availability charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C.

XIII. Temporary Rates

By this Order, we have increased 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, the recommended rates shall be approved as temporary rates. Little Gasparilla shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions set forth below.

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

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

- 1) This Commission approves the rate increase; or
- 2) If this 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 shall 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 shall be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of this 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall 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 shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

XIV. NARUC USOA Primary Accounts

To ensure that the Utility adjusts its books in accordance with our decision, Little Gasparilla shall 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.

XV. Docket to Remain Open

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 shall be issued. The docket shall remain open for 1) our staff to verify that the outstanding Phase I pro forma items have been completed, 2) the revised tariff sheets and customer notice to be filed by the Utility and approved by our staff, 3) the Utility to provide our staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made, and 4) our staff to verify that the SEP has been established and contributions have begun. The docket shall also remain open until the Commission's disposition of the Phase II revenue requirement and rates. Once these actions are complete, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the current quality of service is marginal. While Little Gasparilla Water Utility, Inc. is currently meeting all applicable primary standards as prescribed by DEP, the Utility is exceeding the secondary standard for Chloride and 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 improve the quality of water by proposing an interconnection with Charlotte County. Therefore, there will be no reduction in the return on equity and follow up measures are not required. It is further,

ORDERED that we shall not set U&U percentages for Little Gasparilla Water Utility, Inc.'s water treatment plant and storage facilities because these assets will be retired as a result of the pending interconnection with Charlotte County. The Utility's subaqueous interconnection pipeline shall be considered 100 percent U&U and the water distribution system shall be considered 57 percent U&U. It is further,

ORDERED that the appropriate average test year rate base for Little Gasparilla Water Utility, Inc. is \$538,123. The Utility is hereby 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. It is further,

ORDERED that the appropriate return on equity for Little Gasparilla Water Utility, Inc. 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. It is further,

ORDERED that the appropriate amount of test year revenues for Little Gasparilla Water Utility, Inc. is \$264,149. It is further,

ORDERED that the appropriate amount of operating expenses for Little Gasparilla Water Utility, Inc. is \$297,602. It is further,

ORDERED that Little Gasparilla Water Utility, Inc. is required to provide proof that the simplified employee pension plan has been established and that contributions to the fund have begun prior to implementation of the Phase II rates. If the plan is not implemented, phase II rates shall be reduced to remove the expense related to the plan. It is further,

ORDERED that the appropriate Phase I revenue requirement is \$331,416, resulting in an annual increase of \$67,267 (25.47 percent). It is further

ORDERED that there shall be no change in Little Gasparilla Water Utility, Inc.'s water rate structure. The water rates for the Utility are hereby increased by 25.56 percent. The approved monthly water rates shown on Schedule No. 4 shall continue to be billed on a quarterly basis. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The Utility shall 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 shall be effective for service rendered on or after the stamped approval date on the tariff sheet. The rates shall not be implemented until notice has

been received by the customers. Little Gasparilla shall 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 shall immediately notify this Commission in writing. It is further,

ORDERED that Little Gasparilla Water Utility, Inc.'s water rates shall 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 shall become effective immediately following the expiration of the four-year rate case expense recovery period. The Utility is hereby required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further,

ORDERED that the Phase II revenue requirement and rates shall be addressed as set forth in the body of this Order at Section X. It is further,

ORDERED that the initial customer deposit for Little Gasparilla Water Utility, Inc. shall 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 shall be two times the average estimated bill for water. The Utility shall file revised tariff sheets consistent with our decision. The initial customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets. It is further,

ORDERED that Little Gasparilla Water Utility, Inc.'s existing service availability charges shall 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 are hereby approved. In addition, the Utility is hereby authorized to collect the system development charges required by Charlotte County for all new connections after the interconnection. The approved service availability charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. It is further,

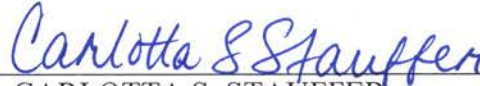
ORDERED that, pursuant to Section 367.0814(7), F.S., the approved rates for Phase I are hereby approved for the Little Gasparilla Water Utility, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Little Gasparilla shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. If the rates are approved on a temporary basis, the rates collected by the Utility shall be subject to the refund provisions set forth in the body of this Order under the heading "Temporary Rates." In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that Little Gasparilla Water Utility, Inc. shall provide proof, within 90 days of a final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. It is further

ORDERED that, 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 shall be issued. The docket shall remain open for 1) our staff to verify that the outstanding Phase I pro forma items have been completed, 2) the revised tariff sheets and customer notice to be filed by Little Gasparilla Water Utility, Inc. and approved by our staff, 3) the Utility to provide our staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made, and 4) our staff to verify that the SEP has been established and contributions have begun. The docket shall also remain open until the Commission's disposition of the Phase II revenue requirement and rates. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 29th day of October, 2014.



CARLOTTA S. STAUFFER

Commission Clerk

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399

(850) 413-6770

www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, with the exception of our decisions regarding the granting of temporary rates in the event of a protest and addressing rate case expense which are final agency action. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 19, 2014. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
SCHEDULE OF WATER RATE BASE (PHASE I)			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	APPROVED BALANCE
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	<u>0</u>	<u>26,205</u>	<u>26,205</u>
8. WATER RATE BASE	<u>\$385,728</u>	<u>\$152,395</u>	<u>\$538,123</u>

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.	<u>(2,414)</u>
	Total	<u>\$276,888</u>

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	<u>(\$110,295)</u>

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.	<u>(139,728)</u>
	Total	<u>(\$479,873)</u>

ACCUMULATED DEPRECIATION

1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$598,226
2.	To reflect an averaging adjustment.	<u>(250,847)</u>
	Total	<u>\$347,379</u>

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.	<u>23,072</u>
	Total	<u>\$92,092</u>

WORKING CAPITAL ALLOWANCE

	To reflect 1/8 of test year O&M expenses.	<u>\$26,205</u>
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LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 09/30/13
SCHEDULE OF CAPITAL STRUCTURE (PHASE I)

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	APPROVED BALANCE	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	<u>0</u>	<u>81,000</u>	<u>81,000</u>					
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	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL DEBT	\$663,235	\$759,503	\$1,422,738	(\$913,939)	\$508,799	94.55%		
12. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
13. TOTAL	<u>\$664,235</u>	<u>\$840,503</u>	<u>\$1,504,738</u>	<u>(\$966,614)</u>	<u>\$538,123</u>	<u>100.00%</u>		<u>6.28%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>6.23%</u>	<u>6.34%</u>	

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 SCHEDULE OF WATER OPERATING INCOME (PHASE I)				SCHEDULE NO. 3-A DOCKET NO. 130265-WU	
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	APPROVED REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$276,331</u>	<u>(\$12,182)</u>	<u>\$264,149</u>	<u>\$67,267</u> 25.47%	<u>\$331,416</u>
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$232,603</u>	<u>\$61,972</u>	<u>\$294,575</u>	<u>\$3,027</u>	<u>\$297,602</u>
8. OPERATING INCOME/(LOSS)	<u>\$43,728</u>		<u>(\$30,426)</u>		<u>\$33,814</u>
9. WATER RATE BASE	<u>\$385,728</u>		<u>\$538,123</u>		<u>\$538,123</u>
10. RATE OF RETURN	<u>11.34%</u>		<u>(5.65%)</u>		<u>6.28%</u>

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 | <u>(12,182)</u> |

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. | <u>(\$10,423)</u> |
| | Subtotal | <u>(\$718)</u> |
| 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. | <u>\$1,405</u> |
| | Subtotal | <u>\$710</u> |
| 3. | Employee Pensions and Benefits (604) | |
| a. | To reflect annual contribution to Simplified Employee Pension Plan | <u>\$11,672</u> |
| 4. | Purchased Water (610) | |
| a. | To reflect pro forma purchased water expense. | \$54,325 |
| b. | To reflect 7% excessive unaccounted for water adjustment. | <u>(3,803)</u> |
| | Subtotal | <u>\$50,522</u> |
| 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. | <u>(280)</u> |
| | Subtotal | <u>(\$15,328)</u> |
| 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 | <u>(38)</u> |
| | Subtotal | <u>(\$1,665)</u> |
| 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. | <u>(6,784)</u> |
| | Subtotal | <u>(\$10,045)</u> |

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 3-B
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU
ADJUSTMENTS TO OPERATING INCOME (PHASE I)		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	<u>\$10,528</u>
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	<u>(\$1,579)</u>
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	<u>(\$3,695)</u>
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	<u>(\$985)</u>
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	<u>(\$2,839)</u>
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	<u>\$2,546</u>

LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 09/30/13
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

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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.	<u>(1,086)</u>
	Subtotal	<u>(\$2,850)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$36,275</u>
	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.	<u>(11,997)</u>
	Total	<u>\$15,729</u>
	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.	<u>333</u>
	Total	<u>\$9,969</u>

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	COMMISSION ADJUST- MENTS	APPROVED TOTAL
(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	<u>8,812</u>	<u>(2,850)</u>	<u>5,962</u>
	<u>\$173,362</u>	<u>\$36,275</u>	<u>\$209,637</u>

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 4	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
MONTHLY WATER RATES (PHASE I)			
	UTILITY CURRENT RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
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
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$59.42	\$74.61	
5,000 Gallons	\$73.85	\$92.73	
8,000 Gallons	\$88.28	\$110.85	