State of Florida

Public Service Commission

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

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

DATE: June 4, 2015

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Vogel, T. Brown, Cicchetti, Mouring)
Division of Economics (Hudson, Thompson)
Division of Engineering (King, Watts)
Office of the General Counsel (Tan)

RE: Docket No. 140147-WS – Application for staff-assisted rate case in Sumter County by Jumper Creek Utility Company.

AGENDA: 06/18/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate (Except for Issues 11, 13 and 14)

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 01/05/16 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Table of Contents

Case Background

Jumper Creek Utility Company (Jumper Creek or Utility) is a Class C water and wastewater utility serving approximately 43 customers in Sumter County. Jumper Creek's service territory is located in the Southwest Florida Water Management District (SWFWMD) and is not in a water use caution area. The Utility's application in the instant docket shows total gross revenues of $13,078 for water and $18,624 for wastewater, with net operating losses of $10,424 and $423 for water and wastewater, respectively.

The Jumper Creek systems were originally owned by Jumper Creek Manor Homeowners' Association, Inc. (HOA). The HOA, as a nonprofit entity, was exempt from Commission regulation, pursuant to Section 367.022(7), Florida Statutes (F.S.). In a 2010 transfer docket, by Order No. PSC-11-0377-PAA-WS, the Jumper Creek systems were transferred to Aqua Utilities Florida, Inc. (AUF).[1] The existing rates at the time of this transfer remained the same. AUF subsequently transferred the systems to Jumper Creek Utility Company in a 2013 transfer docket by Order No. PSC-14-0299-PAA-WS,[2] where Jumper Creek's net book value was last established. The instant case will be the first time the Commission will establish rates for the systems.

Jumper Creek filed its application for a Staff-Assisted Rate Case (SARC) on August 1, 2014, and subsequently completed the Commission's filing requirements. October 3, 2014 was established as the official filing date in this case.

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

[1]Issued September 12, 2011 in Docket No. 100114-WS, In re: Application for approval of transfer of Horizon Homes of Central Florida, Inc. and Five Land Group, LLC's water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 507-W and 441-S, in Sumter County.
[2]Issued June 11, 2014 in Docket No. 130176-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County.

Discussion of Issues

Issue 1: Is the overall quality of service provided by Jumper Creek satisfactory?

Recommendation: Yes. Staff recommends that the condition of the water and wastewater treatment facilities are satisfactory and the water provided by Jumper Creek is meeting applicable water quality standards, including primary and secondary standards, as prescribed in the Florida Department of Environmental Protection's (DEP) rules. It also appears that the Utility has attempted to address the customers' concerns. Therefore, staff recommends that the overall quality of service for the Jumper Creek water and wastewater systems in Sumter County is satisfactory. (Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operational conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. Jumper Creek's compliance with DEP and the SWFWMD regulations; and customer comments or complaints received by the Commission are also reviewed.

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

Jumper Creek's service area is located near Bushnell, Florida, in Sumter County. The raw water source is ground water, which is obtained from two wells in the service area and is treated. The water treatment processing sequence is to pump raw water from the aquifer, inject calcium hypochlorite, and distribute.

In addition to primary contaminants, Section 367.0812, F.S., requires the Commission to consider secondary contaminants as part of the overall quality of service. Secondary contaminants are those contaminants a customer would likely notice because they impact things like color or smell. However, secondary contaminants are not a health risk and DEP does not typically undertake enforcement actions for secondary standards, unless another type of contaminant exceeds the maximum contaminant levels (MCL).

Jumper Creek is current in all of its required chemical analyses. Staff reviewed the chemical analysis with samples dated August 20, 2014, for the disinfection byproducts and January 24, 2012, for all other contaminants. Laboratory tests show that Jumper Creek's finished water product is well below the MCLs allowed by DEP for all primary and secondary contaminants, and there appear to be no water quality compliance issues with this facility.

Staff also reviewed the Utility's last two DEP Sanitary Survey Reports, dated March 18, 2010, and May 14, 2013. For each inspection, no deficiencies were found and DEP determined that the facility was in compliance with its rules and regulations. Based on Jumper Creek's DEP compliance, staff recommends that the operational condition of the water treatment plant (WTP) is satisfactory.

The wastewater treatment plant (WWTP) is an extended aeration facility with reclaimed water directed to a rapid infiltration basin. Staff reviewed the last Compliance Evaluation Inspection (CEI) performed by DEP, dated April 17, 2014. DEP's report listed four deficiencies. First, one of the three blowers did not work. Jumper Creek corrected this deficiency by installing a new blower motor in December 2014. Second, the automatic timer for the blowers did not work. The Utility replaced the automatic timer in April 2014. Third, the lift station wet well needed cleaning. The Utility cleaned the wet well and notified DEP in May 2014. Fourth, DEP stated there was no current flow meter calibration onsite due to the elapsed time meter not functioning. Jumper Creek repaired and calibrated the meter, and reported its actions to DEP in May 2014.

During its April 14, 2015 site inspection, staff verified that all of the deficiencies noted on DEP's CEI had been corrected. However, staff observed that another blower motor was not working. The Utility replaced the motor and submitted an invoice for the replacement to be included in the instant docket. Based on Jumper Creek's status with DEP and its prompt repair actions, staff recommends that the operational condition of the WWTP is satisfactory.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held in Webster, Florida, on April 1, 2015. Four of the Utility's customers attended the meeting and three spoke. Prior to the customer meeting, on November 12, 2014, one customer sent written comments to the Commission objecting to the rate increase. No other customers have submitted written comments to the Commission.

All of the customers who spoke were concerned about the rate increase. In addition to rates, one customer had the following concerns: (1) high levels of chlorine in the water; and (2) odor from the WWTP.

Subsequent to the customer meeting, Jumper Creek tested the chlorine residual at customers' homes, and reported the results to the Commission in a letter dated April 7, 2015. DEP requires water suppliers to maintain a minimum free chlorine residual of at least 0.2 milligrams per liter (mg/L), or a minimum combined chlorine residual of 0.6 mg/L throughout the system at all times. DEP also has designated a maximum system chlorine level of 4.0 mg/L. Jumper Creek reported that all of the customers' chlorine residuals tested at 1.0 mg/L, above the minimum level required, but well below the maximum allowed.

Regarding the odor from the WWTP, after the customer meeting the Utility spoke with the customer who voiced the concern. The WWTP is located behind some homes that are across the street from this customer. After speaking with the customer, the Utility found that there was a sewer clean out which did not have a proper cap on it protruding from the ground near the customer's home. Jumper Creek replaced the cap on April 6, 2015. The Utility reported that, on subsequent site visits, no odor was detected.

Staff reviewed the complaints in the Commission's Complaint Tracking System for the Jumper Creek water and wastewater systems from January 1, 2009, through December 31, 2013. Staff did not find any complaints filed by customers served by Jumper Creek's WTP or WWTP.

On January 15, 2015, staff sent a letter to DEP requesting information on complaints that were filed with DEP regarding this water system from January 1, 2009, through December 31, 2013. DEP reported that it received no complaints regarding the Jumper Creek WTP during that time. Jumper Creek stated that no complaints have been filed with the Utility since it began operations as Jumper Creek Utility Company.

Summary

Staff recommends that the condition of the water and wastewater treatment facilities are satisfactory and the water provided by Jumper Creek is meeting applicable water quality standards, including primary and secondary standards, as prescribed in the DEP rules. It also appears that the Utility has attempted to address the customers' concerns. Therefore, staff recommends that the overall quality of service for the Jumper Creek water and wastewater systems in Sumter County is satisfactory.

Issue 2: What are the used and useful (U&U) percentages of Jumper Creek's WTP, WWTP, and distribution and collection systems?

Recommendation: Jumper Creek's WTP should be considered 90.6 percent U&U, its WWTP should be considered 7.8 percent U&U, and its distribution and collection systems should each be considered 100 percent U&U. There is no indication of excessive unaccounted for water (EUW) or excessive inflow and infiltration (I&I). (Watts)

Staff Analysis: Jumper Creek's water system has a 12-inch well rated at 600 gallons per minute (gpm) and an 8-inch well rated at 570 gpm, for a total capacity of 1,170 gpm. The Utility has a 13,000-gallon hydropneumatic tank for system pressurization. A hypochlorination system is used for disinfection and water from the tank is pumped into the water distribution system.

The distribution system is a network of approximately 5,410 linear feet of 6-inch PVC pipe. According to the Utility, there are 9 fire hydrants in its service area.

The WWTP is a 35,000 gallon per day (gpd) extended aeration facility operated to provide secondary treatment with basic disinfection. Reclaimed water is directed to a two-cell rapid infiltration basin with a 12,100 square foot wetted area.

The collection system is a network of force mains, collecting mains, and a lift station. According to the Utility's records, the force mains consist of approximately 1,088 linear feet of 4-inch PVC pipe, and the collecting mains consist of approximately 4,872 linear feet of 8-inch PVC pipe. According to the Utility, there are 23 manholes.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. Unaccounted for water is all water that is produced and not sold, metered, or accounted for in the records of the Utility. Rule 25-30.4325(10), F.A.C., provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost, are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year.

The Utility's records indicated 2,484,730 gallons of water were produced during the test year, 2,260,000 gallons of water were sold to customers, and 112,462 gallons were used for other purposes. Thus, unaccounted for water is 4.5 percent of the amount produced, resulting in no excessive unaccounted for water.

Water Treatment Plant Used &Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U percentage of a WTP without storage is calculated by dividing the peak system demand by the firm reliable capacity (FRC). The system demand is based on the single maximum day in the test year less EUW, plus a fire flow allowance and a growth allowance.

Because the Utility has no storage capacity, the FRC is based on the capacity of the system excluding the largest well, expressed in gpm. The Utility has two wells, rated at 600 gpm and 570 gpm. Thus, excluding the larger well and using the capacity of the remaining well, the Utility's FRC is 570 gpm.

The peak day of 23,600 gallons (or 16.4 gpm), which occurred on March 31, 2014, appears to be appropriate since it is not associated with unusual occurrences. Fire flow for the Utility's service area is 500 gpm. As discussed above, the Utility's EUW is zero. Pursuant to Rule 25-30.431, F.A.C., a linear regression analysis of the Utility's historical growth shows that there has been no growth for the 5-year statutory growth period. Thus, a growth allowance is not considered. Therefore, pursuant to Rule 25-30.4325, F.A.C., staff recommends that the WTP be considered 90.6 percent U&U. [(16.4gpm+500gpm)/570gpm]

Inflow & Infiltration

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. The Utility's records indicated that it treated less wastewater (931,600 gallons) than it would be allowed for infiltration and inflow as described above (1,072,488 gallons). Thus, the Utility had no excessive I&I for the test year.

Wastewater Treatment Plant Used &Useful

Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's WWTP is based on the customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as permitted capacity. The DEP permitted capacity for this facility is 35,000 gpd based on a three-month rolling average daily flow. Based on the comparable flow of 2,728 gpd during the test year, with no consideration given for growth or excessive I&I, staff recommends that the WWTP be considered 7.8 percent U&U.

Water Distribution and Wastewater Collection Systems Used &Useful

The U&U analysis for the water distribution and wastewater collection systems are determined by dividing the number of lots connected to the systems by the number of lots fronting mains in the service area. Consideration is given for growth, if applicable. The Utility reported 43 connections during the test year, with 115 lots fronting mains. Staff has calculated the water distribution and wastewater collection systems to be 37.4 percent U&U. In Order No. PSC-11-0377-PAA-WS, it was determined that the Utility's distribution and collection systems were developer contributed and imputed in contributions in aid of construction. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.[3]

Summary

Staff recommends that Jumper Creek's WTP should be considered 90.6 percent U&U, its WWTP should be considered 7.8 percent U&U, and its distribution and collection systems should each be considered 100 percent U&U. There is no indication of EUW or excessive I&I.

[3]Order No. PSC-11-0377-PAA-WS, issued September 12, 2011, in Docket No. 100114-WS, In re: Application for approval of transfer of Horizon Homes of Central Florida, Inc. and Five Land Group, LLC's water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 507-W and 441-S, in Sumter County.

Issue 3: What is the appropriate average test year water rate base and wastewater rate base for Jumper Creek?

Recommendation: The appropriate average test year water rate base for Jumper Creek is $53,253 and the average test year wastewater rate base is a negative $12,038. (Vogel)

Staff Analysis: Jumper Creek's net book value was last established in its 2013 transfer docket by Order No. PSC-14-0299-PAA-WS.[4] The test year ended June 30, 2014, was used for the instant case. A summary of each water rate base and wastewater rate base component, and recommended adjustments, are discussed below.

Utility Plant in Service (UPIS): The Utility recorded UPIS of $511,881 for water and $389,284 for wastewater. The Jumper Creek staff audit noted no exceptions to the Utility's UPIS balances. Staff has included three pro forma additions to wastewater plant totaling $3,860 along with retirements of $2,895 for these items. The Utility included a fourth pro forma item for its water plant in service that staff has determined should be covered in the Utility's contract with U.S. Water Services Corp. (USWSC). Staff therefore has not included this pro forma item. Staff has increased wastewater plant in service by $965. Staff recommends that the appropriate UPIS balances are $511,881 for water and $390,249 for wastewater.

Land & Land Rights: The Utility recorded a test year land value of $2,272 for water and $18,722 for wastewater. No adjustments are necessary; therefore, staff recommends that the appropriate land balances are $2,272 and $18,722 for water and wastewater, respectively.

Non-Used and Useful (non-U&U) Plant: The Utility recorded non-U&U plant balances of $0 for water and $128,851 for wastewater. As discussed in Issue 2, the WTP should be considered 90.6 percent U&U and the WWTP should be considered 7.8 percent U&U. In Issue 2, Jumper Creek's distribution and collection systems were calculated as 37.4 percent U&U. In Order No. PSC-11-0377-PAA-WS, it was determined that the Utility's distribution and collection systems were developer contributed and imputed in contributions in aid of construction, therefore, the distribution and collection systems should be considered 100 percent U&U.[5]

Application of the U&U percentages to the average plant balances, associated average accumulated depreciation balances, and associated average acquisition adjustment (AA) balances results in a net increase of $9,095 for water and a net decrease of $81,606 for wastewater non-U&U components, respectively. Therefore, staff's recommended non-U&U plant balances are $9,095 for water and $47,245 for wastewater.

Contributions In Aid of Construction (CIAC): The Utility recorded CIAC balances of $157,236 for water and $221,828 for wastewater. No additions occurred in the test year, and staff determined that no adjustments are necessary. Staff's recommended CIAC is $157,236 and $221,828 for water and wastewater, respectively.

[4]Order No. PSC-14-0299-PAA-WS, issued June 11, 2014, in Docket No. 130176-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 507-W and 441-S of Aqua Utilities Florida, Inc. to Jumper Creek Utility Company in Sumter County.
[5]Issued in Docket No. 100114-WS.

Accumulated Depreciation: Jumper Creek recorded a test year accumulated depreciation balance of $151,215 for water and $126,053 for wastewater. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and depreciation associated with plant additions and retirements, and as a result has decreased wastewater accumulated depreciation by $2,830. Staff has decreased accumulated depreciation by $11,885 for water and $8,097 for wastewater to reflect the simple average. Staff's total adjustments to this account are a decrease of $11,885 for water and $10,927 for wastewater. Staff's adjustments result in accumulated depreciation balances of $139,330 for water and $115,126 for wastewater.

Accumulated Amortization of CIAC: The Utility recorded amortization of CIAC of $38,790 for water and $54,724 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates, and as a result staff has decreased water accumulated amortization of CIAC by $6,430 and increased wastewater accumulated amortization of CIAC by $3,531. Also, staff has decreased water accumulated amortization of CIAC by $2,195 and wastewater accumulated amortization of CIAC $4,078 to reflect the simple average. Staff's net adjustments result in a decrease of $8,625 for water and $547 for wastewater. Staff's recommended accumulated amortization of CIAC balances are $30,166 for water and $54,177 for wastewater.

Acquisition Adjustment (AA): The Utility recorded AA balances of $208,895 for water and $104,855 for wastewater. Due to the timing of when the acquisition adjustment occurred within the test year, an averaging adjustment would not be appropriate. Thus, staff did not adjust the balance. Therefore, staff recommends that the appropriate acquisition adjustment balances are $208,895 for water and $104,855 for wastewater.

Accumulated Amortization of the AA: The Utility recorded an accumulated amortization of the AA balance of $0 for water and $0 for wastewater. Staff has increased these accounts by $1,125 for water and $572 for wastewater to reflect the appropriate amount of accumulated amortization of the AA. Staff increased these balances by $20,143 for water and by $10,249 for wastewater to include a full year of accumulated amortization of the AA. Inclusion of a full year of amortization more appropriately represents the effect of the AA on a going-forward basis. Staff's total adjustments to this account result in accumulated amortization of the AA balances of $21,268 for water and $10,821 for wastewater.

Working Capital Allowance: Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $2,222 for water (based on O&M expense of $17,778/8), and $3,047 for wastewater (based on O&M expense of $24,377/8).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base for water is $53,253 and the average test year rate base for wastewater is a negative $12,038. Water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

Issue 4: What is the appropriate return on equity and overall rate of return for Jumper Creek?

Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.62 percent. (Vogel)

Staff Analysis: According to the staff audit, Jumper Creek's test year capital structure reflected common equity of $2,810 and customer deposits of $760.

The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE for the Utility is 8.74 percent based upon the Commission-approved leverage formula currently in effect.[6] Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.62 percent. The ROE and overall rate of return are shown on Schedule No. 2.

[6] See Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Issue 5: What are the appropriate test year revenues for the Utility's water and wastewater systems?

Recommendation: The appropriate test year revenues for Jumper Creek's water and wastewater systems are $13,370 and $20,662, respectively. (Thompson)

Staff Analysis: Jumper Creek recorded total test year water revenues of $13,078, which includes water service revenues of $11,746 and miscellaneous revenues of $1,332. The Utility recorded total test year wastewater revenues of $18,624. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year, staff determined service revenues for the water system should be increased by $980 to reflect total test year service revenues of $12,726. Staff adjusted miscellaneous revenues to reflect the appropriate amount of $1,288 and split it equally between water and wastewater. As a result, miscellaneous revenues should be decreased by $688 for water and increased by $644 for wastewater to reflect the appropriate miscellaneous revenues of $644 for each system during the test year. Therefore, staff recommends that the appropriate test year revenues for Jumper Creek's water and wastewater systems are $13,370 ($13,078 + $980 - $688) and $20,662 ($20,018 + $644), respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Issue 6: What is the appropriate amount of total operating expense?

Recommendation: The appropriate amount of total operating expense for the Utility is $20,095 for water and $27,024 for wastewater. (Vogel)

Staff Analysis: Jumper Creek recorded operating expense of $40,132 for water and $36,333 for wastewater for the test year ended June 30, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Purchased Power (615/715): The Utility recorded purchased power expense of $1,544 for water and $2,251 for wastewater. Two late fees were included in the wastewater invoices in this account. As a result, staff has decreased this account by $55 for wastewater. Therefore, staff recommends purchased power expense of $1,544 and $2,196 for water and wastewater, respectively.

Chemicals (618/718): The Utility recorded chemicals expense of $47 for water and $455 for wastewater. Staff believes no adjustments are necessary, and therefore recommends chemicals expense of $47 for water and $455 for wastewater.

Contractual Services - Professional (631/731): Jumper Creek recorded contractual services – professional expense of $1,250 for water and $2,083 for wastewater. The Utility included an invoice with no supporting documentation in the wastewater account; therefore, staff has decreased this account by $833. The resulting amounts for contractual services – professional expense are $1,250 for water and $1,250 for wastewater.

Contractual Services - Other (636/736): Jumper Creek recorded contractual services – other expense of $11,503 for water and $16,391 for wastewater. Staff has increased these accounts by $119 for water and $184 for wastewater. In addition, staff decreased the water account by $894 to remove an extra month of expenses in the water account.

Staff received letters from the Office of Public Counsel (OPC) and the Utility regarding the contract between the Utility and USWSC. After reviewing these letters, staff has adjusted the contract expenses for salaries, fuel, and vehicle maintenance. Staff's total adjustments to these expenses result in a decrease of $121 to water and $121 to wastewater.

USWSC provided its costing and allocation model to staff and OPC. Staff reviewed the model and its inputs and allocation procedures and, with the exception of the items for which staff has made adjustments, found the model to be reasonable. In particular, evaluation of the model revealed USWSC included 1,000 potential ERCs to its total ERCs served to spread the costs over a larger base. This lowers the cost per ERC. USWSC indicated it does this to recognize potential future ERCs that are expected to be added through growth or acquisitions. By spreading costs over multiple systems, and including potential ERCs to recognize potential future growth, Jumper Creek customers are realizing operational and cost benefits that would not be available if it operated on a stand-alone basis. In conclusion, staff believes the adjusted cost of the management services contract with USWSC is reasonable.

Staff's net adjustments are a decrease of $896 to water and an increase of $63 to wastewater. The resulting amounts for contractual services – other expense are $10,607 for water and $16,454 for wastewater.

Insurance Expense (655/755): Jumper Creek recorded insurance expense of $1,098 for water and $366 for wastewater for the test year. Staff has reduced insurance expense by $99 for lack of documentation. In addition, staff believes insurance expense should be allocated equally between the water and wastewater systems. Therefore, staff has split the remaining $1,365 between the two systems, $682 for water and $682 for wastewater. Staff's net adjustments decrease insurance expense for water by $416 and increase insurance expense for wastewater by $316. Therefore, staff recommends insurance expense for the test year of $682 for water and $682 for wastewater.

Regulatory Commission Expense (665/765): The Utility recorded regulatory commission expense of $118 for water and $118 for wastewater for the test year. This includes filing fees, noticing fees, and consulting fees. No adjustments were made to this account. Staff recommends regulatory commission expense of $118 for water and $118 for wastewater.

Bad Debt Expense (670/770): Jumper Creek recorded bad debt expense of $825 for water and $174 for wastewater. To establish an appropriate amount of bad debt expense for the test year, staff calculated a three year average using annual reports filed for the years 2012, 2013, and 2014. Using the three year average, staff recommends a decrease of $263 for water and an increase of $584 for wastewater. Therefore, staff recommends bad debt expense of $562 for water and $758 for wastewater.

Miscellaneous Expense (675/775): The Utility recorded miscellaneous expense of $2,120 for water and $657 for wastewater. Staff believes no adjustments are necessary, and therefore recommends miscellaneous expense of $2,120 for water and $657 for wastewater.

Operation and Maintenance Expenses Summary: Based on the above adjustments, staff recommends that the O&M expense balances are $17,778 for water and $24,377 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense (Net of Amortization of CIAC): The Utility recorded depreciation expense of $23,771 for water and $19,099 for wastewater during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff decreased depreciation expense by $4 for water and $40 for wastewater to reflect the appropriate depreciation expense. Also, staff decreased depreciation expense by $1,756 for water and $9,797 for wastewater to reflect the non-U&U portion of the test year depreciation expense. Jumper Creek recorded amortization expense of CIAC as $7,310 for water and $10,853 for wastewater during the test year. Staff also recalculated amortization of CIAC expense and decreased these accounts by $2,921 for water and $2,698 for wastewater to reflect the appropriate amount of this expense. Staff's net adjustments are an increase of $1,161 to water and a decrease of $7,139 to wastewater, resulting in a net depreciation expense of $17,622 ($23,771 – $7,310 + $1,161) for water and $1,107 ($19099 – $10,853 - $7,139) for wastewater. Staff is not including depreciation expense in its calculation of wastewater total operating expense.

Amortization Expense of the AA: Jumper Creek recorded no amortization expense of the AA. This expense for the test year was $1,125 for water and $572 for wastewater. The test year balances only capture one half of a month of this expense. Staff believes a full year of this expense should be used to reflect the appropriate amount of this expense moving forward. Therefore, staff has increased this amount to $20,143 for water and $10,249 for wastewater in place of the test year amounts. Also, to reflect the non-U&U portion of the test year amortization of AA expense, staff has decreased this account by $1,256 for water and $3,860 for wastewater. Staff's net adjustments are increases of $18,887 for water and $6,389 for wastewater. Staff recommends amortization expense of the AA of $18,887 for water and $6,389 for wastewater. Staff is not including amortization expense of the AA in its calculation of wastewater total operating expense.

Taxes Other Than Income (TOTI): Jumper Creek recorded a TOTI balance of $4,319 for water and $3,785 for wastewater. Staff has recalculated the Utility's ad valorem taxes using the updated 2014 rates and has decreased this account $1,113 for water and $843 for wastewater. Staff also included property tax expense for the pro forma plant additions resulting in an increase of $11 for wastewater. Staff has increased this account by $30 for water and $93 for wastewater to reflect the appropriate test year Regulatory Assessment Fees (RAFs) based on adjusted test year revenues. Also, to reflect the non-U&U portion of the test year TOTI expense, staff has decreased this account by $163 for water and $797 for wastewater.

In addition, as discussed in Issue 8, revenues have been increased by $11,313 for water and $8,799 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by $509 for water and $396 for wastewater to reflect RAFs of 4.5 percent on the recommended change in revenues. Staff's net adjustments are decreases of $737 for water and $1,140 for wastewater. Therefore, staff recommends TOTI of $3,582 and $2,646 for water and wastewater, respectively.

Operating Expenses Summary: The application of staff's recommended adjustments to Jumper Creek's test year operating expenses results in operating expenses of $20,095 for water and $27,024 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C, 3-D, and 3-E.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Jumper Creek, and, if so, what is the appropriate margin?

Recommendation: Yes, the Commission should utilize the operating ratio methodology for calculating the wastewater revenue requirement for Jumper Creek. The margin should be 10.00 percent of O&M expense. (Vogel)

Staff Analysis: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than $275,000 per system may petition the Commission for staff assistance using alternative rate setting.

Jumper Creek petitioned the Commission for alternative rate setting under the aforementioned rule and staff believes that the Commission should employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based Jumper Creek's O&M expenses plus a margin. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.[7] This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10.00 percent of O&M expense. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.[8] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.[9]

By Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the wastewater rate base is less than the

[7] Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.
[8] Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.
[9] Issued July 16, 2013, in Docket No. 120270-SU, In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.

level of O&M expense. The Utility's primary risk resides with covering its operating expense. Based on the staff's recommendation, the adjusted water and wastewater rate bases for the test year are $53,253 and a negative $12,038, while adjusted O&M expenses are $17,778 for water and $24,377 for wastewater.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of $250,000 or less. Jumper Creek is a Class C utility and the recommended revenue requirements of $24,683 and $29,461 are substantially below the threshold level for Class B status ($200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, staff recommends that the overall quality of service for the Jumper Creek water and wastewater systems in Sumter County is satisfactory.

4) Whether the Utility is developer-owned. The current Utility owner is not a developer.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Jumper Creek operates water and wastewater treatment plants and collection systems.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that Jumper Creek is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10.00 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. Jumper Creek currently has no interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base methodology, the return to Jumper Creek would be $0 for wastewater. This would not provide the necessary financial margin to successfully operate this utility.

Also, if the return on rate base method was applied, the return would not generate sufficient revenue to cover operating expenses plus an adequate margin. Therefore, the operating ratio methodology should provide adequate revenue to cover operating costs at a minimum.

In this case, there is a large negative acquisition adjustment. Amortization of a negative AA reduces expenses. The significant size of the negative amortization expense results in a reduction in revenue requirements such that the revenue requirement is insufficient to cover the Utility's cash expenses. Further, staff removed depreciation from the operating ratio calculation. Prior Commission practice has been to include net depreciation expense in the operating ratio calculation. In this case, however, staff is recommending that net depreciation expense not be included in the operating ratio calculation. As staff is recommending removing the amortization expense of the AA from the calculation, consistent with that position, staff is also recommending removal of the net depreciation expense from the calculation.

O&M expenses and TOTI are cash expenses incurred by a utility to provide service, and as such must be recovered to ensure the continuity of safe and reliable service. Therefore, staff has only included these accounts in calculating the revenue requirement. These changes will provide Jumper Creek with adequate cash flow to provide safe and reliable service.

OPC's April 22, 2015 letter argues that variances in revenues and expenses are covered through the USWSC contract, the availability of pass-through applications, and indexes. The USWSC contract is cost-based and is not designed to absorb cost variances. The margin OPC refers to is not a margin for Jumper Creek, but for the contract operators. While USWSC and Jumper Creek share certain common investors, USWSC and Jumper Creek are not the same entity and Jumper Creek requires a margin to cover cost variances in its revenues and expenses. OPC also argues that the negative amortization expense from the acquisition adjustment should be included in the revenue requirement calculation. Staff notes that inclusion of this large non-cash expense will not allow the Utility to recover its O&M and TOTI expenses, which are cash expenses and must be paid through revenues. Staff does not agree with OPC on these issues and does not recommend these changes be made.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Jumper Creek with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10.00 percent of O&M expense for determining the wastewater revenue requirement.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is $24,683 for water and $29,461 for wastewater, resulting in an annual increase of $11,313 for water (84.62 percent), and an annual increase of $8,799 for wastewater (42.59 percent). (Vogel)

Staff Analysis: Jumper Creek should be allowed an annual increase of $11,313 for water (84.62 percent) and an annual increase of $8,799 for wastewater (42.59 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.62 percent return on its water system and allow the Utility to recover its O&M expenses, TOTI expenses, as well as allow it a 10.00 percent margin on those O&M expenses on its wastewater system. The calculations are shown in Tables 8-1 and 8-2 for water and wastewater, respectively:

Table 8-1
Water Revenue Requirement

Adjusted Rate Base	$53,253
Rate of Return	x 8.62%
Return on Rate Base	$4,588
Adjusted O&M Expense	17,778
Depreciation Expense (Net)	17,622
Amortization Expense of AA	(18,887)
Taxes Other Than Income	3,073
Test Year RAFs	509
Revenue Requirement	$24,683
Less Adjusted Test Year Revenues	13,370
Annual Increase	$11,313
Percent Increase	84.62%

Table 8-2
Wastewater Revenue Requirement

Adjusted O&M Expense	$24,377
Operating Margin (%)	10.00%
Operating Margin ($)	$2,438
Adjusted O&M Expense	24,377
Depreciation Expense (Net)	0
Amortization Expense of AA	0
Taxes Other Than Income	2,250
Test Year RAFs	396
Revenue Requirement	$29,461
Less Adjusted Test Year Revenues	20,662
Annual Increase	$8,799
Percent Increase	42.59%

Issue 9: What are the appropriate rate structures and rates for Jumper Creek's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Thompson)

Staff Analysis:

Water Rates

The Jumper Creek water system is located in Sumter County within the SWFWMD. The Utility provides water service to approximately 43 residential customers. Approximately 2.83 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand is 4,566 gallons per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) of $25.25, which includes an allotment of 10,000 gallons per month, and a gallonage charge of $2.52 for those gallons in excess of 10,000.

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

A BFC and uniform gallonage charge is the preferred rate structure for residential water service. Staff recommends that 40 percent of the water revenues should be generated from the BFC, which will provide sufficient revenues to design a gallonage charge that will send an appropriate pricing signal to customers. Based on a recommended revenue increase of 88.9 percent and the removal of the 10,000 gallon allotment in the base facility charge, the residential consumption can be expected to decline by 282,000 gallons resulting in anticipated average residential demand of 3,996 gallons per month. Staff recommends a 12.48 percent reduction in total residential consumption and corresponding reductions of $193 for purchased power, $6 for chemicals, and $9 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $23,831.

Based on the foregoing, staff recommends 40 percent of the water revenues be generated from the BFC. The traditional BFC and uniform gallonage charge rate structure should be approved for residential and general service water customers. A 12.48 percent reduction in total residential consumption and corresponding reductions of $193 for purchased power, $6 for

chemicals, and $9 for RAFs should be made to reflect the anticipated repression. Staff's recommended rate structure and the resulting wastewater rates are shown on Schedule Nos. 4-A.

Wastewater Rates

The Utility also provides wastewater service to its 43 residential customers. Currently, the wastewater rate structure consists of a monthly flat rate of $40.44 for all customer classes. Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater 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; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

A BFC and gallonage charge with cap is the preferred rate structure for residential wastewater service. Since metered water usage is available, staff believes the flat rate structure should be discontinued. Typically, the Commission's practice is to allocate at least 50 percent of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Based on the significant increase in the revenue requirement, staff recommends that 50 percent of the revenue requirement should be generated from the BFC in order to mitigate the impact of the rate increase.

The gallonage cap recognizes that not all water used by residential customers is returned to the wastewater system. The cap creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's billing analysis, the 6,000 gallon level is where approximately 80 percent of water demand is captured. Therefore, staff recommends the gallonage cap should be set at 6,000 gallons.

In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends a repression adjustment of 93,757 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 4.69 percent reduction in total residential consumption and corresponding reductions of $103 for purchased power, $21 for chemicals, $45 for sludge removal, and $8 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $28,639.

Based on the above, staff recommends a discontinuance of the flat rate structure for wastewater customers. Staff recommends that the residential wastewater customers' rate structure should consist of a BFC for all meter sizes, based on a 50 percent allocation of wastewater revenue to the BFC, with a cap of 6,000 gallons. A 4.69 percent reduction in total residential consumption and corresponding reductions of $103 for purchased power, $21 for

chemicals, $45 for sludge removal, and $8 for RAFs should be made to reflect the anticipated repression. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice. Staff's recommended rate structure and the resulting wastewater rates are shown on Schedule Nos. 4-B.

Summary

Staff recommends the Commission approve the monthly water and wastewater rates and rate structure are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 10: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding pro forma and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, no refunds are required. Further, upon issuance of the Consummating Order in this docket, the surety bond should be released. (Vogel)

Staff Analysis: By Order No. PSC-14-0596-PCO-WS, issued October 22, 2014, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was $24,020 and $18,998 for water and wastewater, respectively, which represents an increase of $10,942 or 83.67 percent for water and $374 or 2.01 percent for wastewater.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended June 30, 2014. Jumper Creek's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of total operating expenses.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Using the principles discussed above, the revenue requirements of $24,020 for water and the $18,998 for wastewater granted in Order No. PSC-14-0596-PCO-WS is less than the revised revenue requirement for the interim collection period of $24,683 for water and $29,461 for wastewater. As such, staff recommends that no refund is required for revenues collected under interim rates. Further, upon issuance of the Consummating Order in this docket, the surety bond should be released.

Issue 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

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

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions are $125 and $136 for water and wastewater, respectively.

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

Issue 12: What are the appropriate initial customer deposits for Jumper Creek?

Recommendation: The appropriate initial customer deposits should be $96 and $118 for the residential 5/8″ x 3/4″ meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.[10] Currently, the Utility's existing initial deposits for residential 5/8″ x 3/4" meters are $50 for water and $80 for wastewater. Based on staff's recommended rates, the appropriate initial customer deposit should be $96 for water and $118 for wastewater to reflect an average residential customer bill for two months.

Staff recommends the appropriate initial customer deposits should be $96 and $118 for the residential 5/8″ x 3/4″ meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

[10] See Order No. PSC-14-0508-AS-WS, issued September 24, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

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

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $13,411. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 14: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

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

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

Issue 15: Should this docket be closed?

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

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

JUMPER CREEK UTILITY COMPANY TEST YEAR ENDED 06/30/14 SCHEDULE OF WATER RATE BASE			SCHEDULE NO. 1-A DOCKET NO. 140147-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$511,881	$0	$511,881
LAND & LAND RIGHTS	2,272	0	2,272
NON-USED AND USEFUL COMPONENTS	0	(9,095)	(9,095)
CIAC	(157,236)	0	(157,236)
ACCUMULATED DEPRECIATION	(151,215)	11,885	(139,330)
AMORTIZATION OF CIAC	38,790	(8,625)	30,166
ACQUISITION ADJUSTMENT	(208,895)	0	(208,895)
ACCUMULATED DEPRECIATION OF AA	0	21,268	21,268
WORKING CAPITAL ALLOWANCE	0	2,222	2,222
WATER RATE BASE	$35,597	$17,656	$53,253

JUMPER CREEK UTILITY COMPANY **SCHEDULE NO. 1-B**
TEST YEAR ENDED 06/30/14 **DOCKET NO. 140147-WS**
SCHEDULE OF WASTEWATER RATE BASE

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$389,284	$965	$390,249
LAND & LAND RIGHTS	18,722	0	18,722
NON-USED AND USEFUL COMPONENTS	(128,851)	81,606	(47,245)
CIAC	(221,828)	0	(221,828)
ACCUMULATED DEPRECIATION	(126,053)	10,927	(115,126)
AMORTIZATION OF CIAC	54,724	(547)	54,177
ACQUISITION ADJUSTMENT	(104,855)	0	(104,855)
ACCUMULATED DEPRECIATION OF AA	0	10,821	10,821
WORKING CAPITAL ALLOWANCE	0	3,047	3,047
WASTEWATER RATE BASE	($118,857)	$106,819	($12,038)

JUMPER CREEK UTILITY COMPANY TEST YEAR ENDED 06/30/14 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 140147-WS PAGE 1 OF 1
	WATER	**WASTEWATER**
UTILITY PLANT IN SERVICE		
1. To reflect pro forma additions.	$0	$3,860
2. To reflect retirements associated with pro forma additions.	0	(2,895)
Total	$0	$965
NON-USED AND USEFUL PLANT		
1. To reflect non-used and useful plant.	$(31,926)	$53,254
2. To reflect non-used and useful accumulated depreciation.	11,129	(7,065)
3. To reflect non-used and useful acquisition adjustment.	13,029	39,492
4. To reflect non-used and useful amortization of acquisition adjustment.	(1,326)	(4,076)
Total	$(9,095)	$81,606
ACCUMULATED DEPRECIATION		
1. To reflect an averaging adjustment.	$11,885	$8,097
2. To reflect appropriate Acc. Dep. associated with pro forma plant.	0	2,830
Total	$11,885	$10,927
AMORTIZATION OF CIAC		
1. To reflect the appropriate amount of amortization.	($6,430)	$3,531
2. To reflect an averaging adjustment.	(2,195)	(4,078)
Total	($8,625)	($547)
AMORTIZATION OF ACQUISTION ADJUSTMENT		
1. To reflect the amount of amortization of AA during the test year.	$1,125	$572
2. To normalize the appropriate amount of amortization of AA.	20,143	10,249
Total	$21,268	$10,821
WORKING CAPITAL ALLOWANCE		
To reflect 1/8 of test year O&M expenses.	$2,222	$3,047

JUMPER CREEK UTILITY COMPANY **SCHEDULE NO. 2**
TEST YEAR ENDED 06/30/14 **DOCKET NO. 140147-WS**
SCHEDULE OF CAPITAL STRUCTURE

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON EQUITY	$2,810	$0	$2,810	$37,646	$40,456	98.16%	8.74%	8.58%
2.	LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
3.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
4.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
5.	CUSTOMER DEPOSITS	760	0	760	0	760	1.84%	2.00%	0.04%
6.	DEFERRED INCOME TAXES	0	0	$0	0	$0	0.00%	0.00%	0.00%
7.	TOTAL	$3,570	$0	$3,570	$37,646	$41,216	100.00%	10.74%	8.62%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.74%	9.74%
OVERALL RATE OF RETURN	7.63%	9.60%

JUMPER CREEK UTILITY COMPANY **SCHEDULE NO. 3-A**
TEST YEAR ENDED 06/30/14 **DOCKET NO. 140147-WS**
SCHEDULE OF WATER OPERATING INCOME

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$13,078	$292	$13,370	$11,313	$24,683
				84.62%	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	$19,352	($1,574)	$17,778	$0	$17,778
3. DEPRECIATION (NET)	16,461	1,161	17,622	0	17,622
4. AMORTIZATION OF AA	0	(18,887)	(18,887)	0	(18,887)
5. TAXES OTHER THAN INCOME	4,319	(1,246)	3,073	509	3,582
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$40,132	($20,546)	$19,586	$509	$20,095
8. **OPERATING INCOME/(LOSS)**	($27,054)		($6,216)		$4,588
9. **WATER RATE BASE**	$35.597		$53,253		$53,253
10. **RATE OF RETURN**			(11.67%)		8.62%

JUMPER CREEK UTILITY COMPANY **SCHEDULE NO. 3-B**
TEST YEAR ENDED 06/30/14 **DOCKET NO. 140147-WS**
SCHEDULE OF WASTEWATER OPERATING INCOME

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$18,624	$2,038	$20,662	$8,799 42.59%	$29,461
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	$24,302	$75	$24,377	$0	$24,377
3. DEPRECIATION (NET)	8,246	(7,139)	1,107	(1,107)	0
4. AMORTIZATION OF AA	0	(6,389)	(6,389)	6,389	0
5. TAXES OTHER THAN INCOME	3,785	(1,535)	2,250	396	2,646
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$36,333	($14,987)	$21,346	$5,678	$27,024
8. **OPERATING INCOME/(LOSS)**	($17,709)		($684)		$2,438
9. **WASTEWATER O&M EXPENSES**	$24.377		$24,377		$24,377
10. **OPERATING RATIO ON O&M EXPENSES**					10.00%

	JUMPER CREEK UTILITY COMPANY TEST YEAR ENDED 06/30/14 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 140147-WS	
		WATER	**WASTEWATER**
	OPERATING REVENUES		
1.	To reflect the appropriate test year services revenues.	$980	$1,394
2.	To reflect miscellaneous revenues.	(688)	644
	Subtotal	$292	$2,038
	OPERATION AND MAINTENANCE EXPENSES		
1.	Purchased Power (615/715)		
	To reflect the appropriate amount of chemicals for the test year.	$0	($55)
	Subtotal	$0	($55)
2.	Contractual Services – Professional (631/731)		
	To remove unsupported invoices.	$0	($833)
	Subtotal	$0	($833)
3.	Contractual Services - Other (636/736)		
	a. To exclude the month of July 2014.	($894)	$0
	b. To reflect the appropriate amount of Contractual Services – Other.	119	184
	c. To reflect administrative contract adjustments.	(121)	(121)
	Subtotal	($896)	$63
4.	Insurance Expense (655/755)		
	a. To reflect appropriate insurance expense.	($416)	$316
	Subtotal	($416)	$316
5.	Bad Debt Expense (670/770)		
	a. To reflect the 3 year average of bad debt expense.	($263)	$584
	Subtotal	($263)	$584
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($1,575)	$75
	DEPRECIATION EXPENSE		
1.	To reflect appropriate depreciation expense.	($4)	($40)
2.	To reflect non-used and useful depreciation expense.	(1,756)	(9,797)
3.	To reflect the appropriate amount of amortization expense of CIAC.	2,921	2,698
	Total	$1,161	($7,139)
	AMORTIZATION EXPENSE OF AA		
1.	To reflect the appropriate amount of amortization expense of AA.	($20,143)	($10,249)
2.	To reflect the non-used and useful amortization expense of AA.	1,256	3,860
	Total	($18,887)	($6,389)
	TAXES OTHER THAN INCOME		
1.	To reflect the appropriate test year RAFs.	$30	$93
2.	To reflect non-used and useful property taxes.	(163)	(797)
3.	To reflect the appropriate test year property taxes.	(1,113)	(842)
4.	To reflect the appropriate allocation of property taxes to plant additions.	0	11
	Total	($1,246)	($1,535)

JUMPER CREEK UTILITY COMPANY — **SCHEDULE NO. 3-D**
TEST YEAR ENDED 06/30/14 — **DOCKET NO. 140147-WS**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	750	0	750
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,544	0	1,544
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	47	0	47
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,250	0	1,250
(633) CONTRACTUAL SERVICES - LEGAL	98	0	98
(636) CONTRACTUAL SERVICES - OTHER	11,503	(896)	10,607
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	1,098	(416)	682
(665) REGULATORY COMMISSION EXPENSE	118	0	118
(670) BAD DEBT EXPENSE	825	(263)	562
(675) MISCELLANEOUS EXPENSE	2,120	0	2,120
	$19,353	($1,575)	$17,778

JUMPER CREEK UTILITY COMPANY **SCHEDULE NO. 3-E**
TEST YEAR ENDED 06/30/14 **DOCKET NO. 140147-WS**
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(703) SALARIES AND WAGES - OFFICERS	750	0	750
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	959	0	959
(715) PURCHASED POWER	2,251	(55)	2,196
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	455	0	455
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	2,083	(833)	1,250
(735) CONTRACTUAL SERVICES - LEGAL	98	0	98
(736) CONTRACTUAL SERVICES - OTHER	16,391	63	16,454
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	366	316	682
(765) REGULATORY COMMISSION EXPENSE	118	0	118
(770) BAD DEBT EXPENSE	174	584	758
(775) MISCELLANEOUS EXPENSE	657	0	657
	$24,302	$75	$24,377

JUMPER CREEK UTILITY COMPANY
TEST YEAR ENDED JUNE 30, 2014 **SCHEDULE NO. 4-A**
MONTHLY WATER RATES **DOCKET NO. 140147-WS**

	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service				
Base Facility Charge for All Meter Sizes	$25.25	$48.77	N/A	N/A
Base Facility Charge by Meter Size				
5/8" x 3/4"	N/A	N/A	$19.26	$0.10
3/4"	N/A	N/A	$28.89	$0.15
1"	N/A	N/A	$48.15	$0.25
1-1/2"	N/A	N/A	$96.30	$0.50
2"	N/A	N/A	$154.08	$0.81
3"	N/A	N/A	$308.16	$1.61
4"	N/A	N/A	$481.50	$2.52
6"	N/A	N/A	$963.00	$5.05
8"	N/A	N/A	$1,540.80	$8.07
Charge per 1,000 gallons	N/A	N/A	$7.23	$0.04
0 - 10,000 gallons	$0.00	$0.00	N/A	N/A
Over 10,000 gallons	$2.52	$4.87	N/A	N/A
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
4,000 Gallons	$25.25	$48.77	$48.18	
6,000 Gallons	$25.25	$48.77	$62.64	
10,000 Gallons	$25.25	$48.77	$91.56	

JUMPER CREEK UTILITY COMPANY
TEST YEAR ENDED JUNE 30, 2014 **SCHEDULE NO. 4-B**
MONTHLY WASTEWATER RATES **DOCKET NO. 140147-WS**

	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential Service				
Flat Rate	$40.44	$41.25	N/A	N/A
Base Facility Charge for All Meter Sizes	N/A	N/A	$29.11	$0.14
Charge per 1,000 gallons	N/A	N/A	$7.46	$0.04
6,000 gallon cap				
General Service				
Flat Rate	$40.44	$41.25	N/A	N/A
Base Facility Charge by Meter Size				
5/8"X3/4"	N/A	N/A	$29.11	$0.14
3/4"	N/A	N/A	$43.67	$0.21
1"	N/A	N/A	$72.78	$0.35
1-1/2"	N/A	N/A	$145.55	$0.69
2"	N/A	N/A	$232.88	$1.11
3"	N/A	N/A	$465.76	$2.21
4"	N/A	N/A	$727.75	$3.45
6"	N/A	N/A	$1,455.50	$6.91
8"	N/A	N/A	$2,328.80	$11.05
Charge per 1,000 gallons	N/A	N/A	$8.95	$0.04
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
4,000 Gallons	$40.44	$41.25	$58.95	
6,000 Gallons	$40.44	$41.25	$73.87	
10,000 Gallons	$40.44	$41.25	$73.87	