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: August 6, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Wright, Fletcher, Bulecza-Banks, Redemann, Springer)
Office of the General Counsel (Brown)

RE: Docket No. 090121-SU – Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.

AGENDA: 08/18/09 – Regular Agenda – All Issues Proposed Agency Action Except Issues 3 and 4 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090121.RCM.DOC

Case Background

Alafaya Utilities, Inc. (Alafaya or Utility) is a Class A wastewater utility located in Seminole County serving approximately 7,523 residential customers and 1,200 reuse customers. The Utility's 2008 annual report reflects wastewater revenues of $3,791,018. The Utility's last rate proceeding was in 2006.[1] Alafaya's wastewater rates were last adjusted on February 8, 2009, as a result of a Price Index and Pass-Through Application, filed pursuant to Section 367.081(4)(a)and(b), Florida Statutes (F.S.).

[1] See Order No. PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for rate increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

On March 12, 2009, the Utility filed its application for a limited proceeding pursuant to Section 367.0822, F.S. Alafaya has filed for a limited proceeding in order to recover the costs of an upgrade and expansion of the Utility's reclaimed water infrastructure, including extension of a main and necessary system enhancements, to recover digester costs exceeding those included in the Utility's last rate case, and to recover the cost of the Utility's modernization of its information, customer service, and computer systems. Staff has determined that Alafaya met the filing requirements of Rule 25-30.445, Florida Administrative Code (F.A.C.).

A customer meeting was held in the Utility's service area on May 27, 2009. Fifteen customers attended the meeting and ten customers spoke. Several customers expressed concern over the lack of reuse water and the lack of water pressure when reuse water is available. The Utility's customers also complained of unsatisfactory customer service.

The Commission has jurisdiction pursuant to Section 367.0822, F.S.

Discussion of Issues

Issue 1: What is the appropriate increase in wastewater revenues for this Utility?

Recommendation: The appropriate increase in wastewater revenues should be implemented in two phases. The phase one increase should be $654,085 or 17.51 percent, and the phase two increase should be $307,070 or 6.99 percent. (Wright)

Staff Analysis: In its application, the Utility requested a $1,083,706 or 28.07 percent increase in its wastewater rates. The Utility's proposed increase consists of additions to rate base for the cost of upgrading and expanding the Utility's reclaimed water infrastructure, including extension of a main and system enhancements, digester costs exceeding those included in the Utility's last rate case, and the costs incurred by the Utility for modernization of its information, customer service, and computer systems. The adjustments to operating expenses include depreciation expense, amortization expense, rate case expense, taxes other than income (TOTI), and income taxes. The Utility's revenue increase is comprised of a return on rate base items, plus the increase in operating expenses, gross-up for taxes. Staff has reviewed the application as well as supporting documentation. Based on the review, staff recommends a revenue increase of $654,085 or 17.51 percent be approved for phase one and a revenue increase of $307,070 or 6.99 percent for phase two. Items included in the determination of the revenue increase are discussed below.

Plant Increases

In its filing, Alafaya included increases in plant of $1,548,779 for a 1.5 million gallon ground storage tank, $751,384 for a county road reuse main extension, $2,374,766 for a new Equalization Tank (EQ tank), $490,394 to replace a digester (net of retirements) that was not included in the Utility's last rate case, and $529,732 for the modernization of its information, customer service, and computer services. The total increase in utility plant in service for the items described above is $5,695,055. In its filing, the company estimates that the completion date for the new EQ tank is March 31, 2010. In a data request response, Alafaya stated that a second quarter completion date in 2010 was a preferable target for the EQ tank. According to Section 367.081, F.S., the Commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission. Staff recommends removing the $2,374,766 investment in the EQ tank from the total increase in plant of $5,695,055 and implementing the resulting revenue requirement in two phases. The first phase would include plant increases, excluding the EQ tank, of $3,320,289, and the second phase would be based on the new EQ tank plant investment of $2,374,766. Staff believes that the increase in rates resulting from the construction of the new EQ tank should not be implemented until it is completed and operational.

Used and Useful

The Utility did not make a used and useful (U&U) determination for this filing. Section 367.081(3), F.S., provides that all prudent costs of a reuse project shall be recovered in rates. Alafaya's last U&U determination was made in Docket No. 060256-SU. By Order No. PSC-07-

0130-SC-SU, the Commission found that Alafaya's wastewater treatment plant (Account 380.4) was 94 percent U&U. Consistent with that previous decision, staff recommends applying the same 94 percent to the plant increases included in Account 380.4 for this docket to determine the appropriate U&U amount. The Utility's increase in plant for this filing includes additions to Account 380.4 in the amount of $490,394 for digester replacement equipment with a related accumulated depreciation adjustment of $572,214, for a total increase to rate base of $1,062,608. Staff recommends a non-U&U adjustment of 6 percent or $63,756 for the determination of the revenue requirement for phase one. For phase two, the non-U&U adjustment would be 6 percent of the $2,364,236 net plant investment in the new EQ tank or $141,854.

Working Capital

Alafaya included an adjustment for an increase in cash working capital of $16,745. The Utility included an increase in rate case expense of $22,064 and an increase in TOTI of $111,893. Alafaya computed one eighth of the total of $133,957 for the items described above or $16,745 to determine the increase in working capital. Alafaya is a Class A utility and should be computing working capital based on the balance sheet approach. It is the Commission's practice to include half of the approved amount of rate case expense in the working capital calculation for Class A wastewater utilities.[2] As discussed later, staff has recommended total rate case expense of $30,290. Consistent with Commission practice, staff recommends allowing $15,145 ($30,290 divided by 2) in the working capital calculation, which is half of staff's recommended amount of rate case expense.

Cost of Capital

In its filing, Alafaya utilized a weighted cost of capital consisting of Alafaya's parent company, Utilities, Inc.'s (UI's) total common equity of $158,372,419 with a cost rate of 11.46 percent, and long-term debt of $180,000,000 with a cost rate of 6.60 percent at December 31, 2007. According to Rule 25-30.445(4)(e), F.A.C., a calculation of the weighted average cost of capital shall be provided for the most recent 12-month period, using the mid-point of the range of the last authorized rate of return on equity, the current embedded cost of fixed-rate capital, the actual cost of short-term debt, the actual cost of variable-cost debt, and the actual cost of other sources of capital which were used in the last individual rate proceeding of the utility. The return on equity of 11.46 percent is based on the leverage formula approved in Order No. PSC-06-0476-PAA-WS and was used in the Utility's last rate proceeding. The Utility's last proceeding also included balances for short-term debt and customer deposits in the cost of capital calculation. Alafaya did not include any amounts in this filing for short-term debt or customer deposits. The annual reports for 2007 and 2008 included additional components of short-term debt and customer deposits in its cost of capital schedules. While UI's amounts for common equity and long-term debt have remained relatively consistent from 2007 to 2008, the amount for

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[2] See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company, PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

short-term debt has increased dramatically from $15,500,000 at the end of 2007 to $49,775,000 at the end of 2008, at a reported cost rate of 3.75 percent. Staff recommends including the 2008 short-term debt amount of $49,775,000 in determining the cost of capital for Alafaya and the 2008 customer deposit amount of $104,582 at a cost rate of 6.00 percent. The adjustments described above would result in the overall cost of capital being 7.96 percent for phase one and 8.17 percent for phase two.

Depreciation Expense

Alafaya included additional annual depreciation expense related to the limited proceeding plant additions in its revenue requirement determination in the amount of $256,226. As discussed previously, staff is recommending removing the EQ plant investment in the amount of $2,374,766, which includes engineering cost of $81,234 for phase one. The Utility included depreciation expense of $4,513 related to the engineering cost but did not include any depreciation expense related to the remaining EQ tank investment of $2,293,532, since the completion date was estimated to be March 31, 2010. Staff recommends excluding the depreciation expense of $4,513 in the phase one calculation of revenue requirements related to the EQ tank engineering cost, to be consistent with excluding the investment. Staff recommends including $4,242 in depreciation expense in determining the phase two revenue requirement, which is the $4,513 amount less a 6 percent non-U&U adjustment of $271. The Utility included a decrease in depreciation expense related to the retirement of digester equipment in the amount of $46,365. Staff recommends adjusting the $46,365 by $4,358 to reflect the non-U&U portion, which results in an adjusted depreciation decrease due to retirements of $43,583.

Rate Case Expense

The Utility included in its filing an estimate of $88,259 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 4, 2009, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $88,326. The components of the estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Legal	$15,375	$424	$15,018	$15,442
WSC In-house Fees	60,808	3,165	57,643	60,808
Filing Fee	2,250	2,250	0	2,250
Travel - WSC	2,600	70	2,530	2,600
Miscellaneous	500	0	500	500
Notices	6,726	0	6,726	6,726
Total Rate Case Expense	$88,259	$5,909	$82,417	$88,326

Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

Staff reviewed the 1,461 hours and $57,643 of estimated costs to complete this case by Water Service Corporation (WSC) employees. As of April 16, 2009, WSC had 74 actual hours worked at a cost of $3,165, which when added to the $57,643 results in a combined actual and estimated to complete cost for WSC employees of $60,808. Alafaya asserts that additional hours are required to respond to staff's data requests, to assist with the limited proceeding, and audit facilitation. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. By applying the individual employee rates and the average number of hours worked by WSC employees,[3] staff determined that the estimated WSC fees to complete the case is unreasonable and should be adjusted. Staff recommends decreasing the WSC estimated costs to complete this case by $55,006, which results in total costs for WSC employees of $5,802 to be included in rate case expense.

The second adjustment addresses WSC's travel expenses. In its MFRs, Alafaya estimated $2,600 for travel. WSC's actual travel expenses to date are $70. Based on several previous UI rate cases, it is staff's experience for Limited Proceeding rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore, the entire remaining amount of estimated travel expense should be removed. Accordingly, staff recommends that rate case expense be decreased by $2,530 ($2,600-$70).

The third adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies, and other miscellaneous costs. In its filing, the Utility estimated $500 for these items. The Utility provided no breakdown or support for the $500. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., at p. 1, the Commission found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books were maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.[4] Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida, who subsequently submits them to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state.

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[3] This methodology has been approved in other recent cases for Alafaya's sister companies. See Order Nos. PSC-09-0373-PAA-SU, issued May 27, 2009, in Docket No. 080250-SU, In re: Application for Increase in Wastewater Rates in Pinellas County by Mid-County Services, Inc. and PSC-09-0642-WS, issued June 22, 2009, in Docket No. 080248-SU, In re: Application for Increase in Water and Wastewater Rates in Pinellas County by Tierra Verde Utilities, Inc.

[4] See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA; and Order No. 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County.

This is a decision of the shareholders of the Utility; therefore, they should bear the related costs. Accordingly, staff recommends that miscellaneous rate case expense be decreased by $500.

In summary, staff recommends that the Utility's revised rate case expense be decreased by $58,036 for unsupported and unreasonable rate case expense.

The appropriate total rate case expense is $30,290. A breakdown of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Total
Legal	$15,375	$15,442	$0	$15,442
WSC In-house Fees	60,808	60,808	(55,006)	5,802
Filing Fee	2,250	2,250	0	2,250
Travel - WSC	2,600	2,600	(2,530)	70
Miscellaneous	500	500	(500)	0
Notices	6,726	6,726	0	6,726
Total Rate Case Expense	$88,259	$88,326	($58,036)	$30,290
Annual Amortization	$22,065	$22,081	($14,508)	$7,573

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. In its MFRs, Alafaya requested total rate case expense of $88,259, which amortized over four years would be $22,065. Based on the data provided by Alafaya and the staff-recommended adjustments discussed above, staff recommends annual rate case expense of $7,573, which is a decrease of $14,492 (Amount included in the MFRs of $22,065 less staff's recommended rate case expense of $7,573).

The Utility's calculations and staff's recommended adjustments are reflected in the following table:

Increase in Rate Base and Rate of Return	Company Requested	Staff Calculated Phase I	Staff Calculated Phase II
Increase in plant	$5,979,988	$3,605,222	$2,374,766
Retirement of old equipment	(284,933)	(284,933)	
Accumulated Depreciation	286,163	296,693	(10,530)
Non Used and Useful		(63,756)	(141,854)
CIAC	(280,000)	(280,000)	
Accumulated Amortization of CIAC	18,288	18,288	
Cash Working Capital	16,745	15,145	
Total increase in rate base	$5,736,251	$3,306,659	$2,222,382
Weighted Cost of Capital	8.88%	7.96%	8.18%
Rate of Return Required	$509,183	$263,216	$181,692
Increase in Operating Expenses and Other Taxes			
Increase in depreciation expense – plant improvements	$256,226	$244,143	$4,242
Decrease in depreciation expense – retirements	(46,365)	(43,583)	
Increase in CIAC amortization	(7,568)	(7,568)	
Amortization of rate case expense	22,064	7,573	
Increase in TOTI	111,893	63,089	39,541
Total increase in operating expenses and TOTI	$336,250	$263,654	$43,783
Total Taxable Income	$509,183	$263,216	$181,692
Multiply by State Income Tax (5.5 percent)	28,005	14,477	9,993
Total Federal Taxable Income	481,178	248,740	171,699
Multiply by Federal Income Tax (34 percent)	163,601	84,571	58,378
Total Revenue Increase Before RAFs	$1,037,039	$625,918	$293,846
Multiply by RAF (4.5 percent)	46,667	28,166	13,223
Total Revenue increase	$1,083,706	$654,085	$307,070

Issue 2: What are the appropriate rates for Alafaya Utilities, Inc.?

Recommendation: The appropriate rates are shown on Schedules 2 and 3. The rates should be designed to allow the Utility the opportunity to generate additional revenues of $654,085 for wastewater service for phase one and $307,070 for phase two. The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

The Utility should not be allowed to implement phase-two rates until construction of the EQ Tank has been completed and approved by the Department of Environmental Protection (DEP). The Utility should provide staff with the approval documentation no later than 15 days after the Utility receives the final approval from DEP. At that time, the Utility should also file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. (Wright)

Staff Analysis: The rates recommended by staff are designed to allow the Utility the opportunity to generate additional revenues of $654,085 for wastewater service for phase one and $307,070 for phase two. As shown on Schedules 2 and 3, staff is recommending a change in the Utility's reuse rate structure and rates.

Many of the customer complaints concerned the lack of reuse water and reuse water pressure. Alafaya has explored ways to alleviate this problem. First, as discussed in Issue 1, Alafaya has installed a 1.5 million gallon ground storage tank to address reuse outage and pressure complaints. Second, Alafaya applied for a Consumptive Use Permit for augmentation wells to address the pressure and reuse complaints. The Utility later withdrew its application due to lack of St. Johns River Water Management District (SJRWMD) staff support. According to its data request response, the Utility stated that the SJRWMD staff indicated that groundwater withdrawals should not be permitted until all other alternative water sources were considered and confirmed to be unavailable. On May 18, 2009, the Utility met with the City of Oviedo (City) to discuss the City's renewed interest in making available a portion of its allocation of Iron Bridge reuse water. The Utility and the City agreed to continue discussions regarding the development of a bulk reuse agreement between the parties.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by this Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. In setting reuse rates, the type of customer being served must be considered. Also, it is important to balance the disposal needs of the Utility with the consumption needs of the customer.

In cases where a Utility has excess reuse capacity, rates typically should be set lower to encourage customers to use reuse at a level sufficient to meet the Utility's disposal need. In cases where a utility's reuse capacity is unable to meet demand, rates should be set higher or the rate structure should be changed to promote conservation. In this case, Alafaya is able to meet its disposal needs. In fact, Alafaya's reuse capacity is unable to meet demand.

Presently, the City does not have the infrastructure in place to provide reuse service to Alafaya's customers. As such, the only alternative irrigation source now available to Alafaya's customers is the City's potable water service. As shown on Schedule 1, Alafaya's residential reuse base facility charge is $3.70 with a gallonage charge of $0.39 per 1,000 gallons for residential and $0.64 for general service. Staff recommends adopting a rate structure for reuse similar to the City's five-tier potable water rate structure with rates at 55 percent of the City's water gallonage rates and 50 percent of the monthly base charge for residential. Staff also recommends an increase of 40 percent for the Utility's existing reuse general service gallonage charge. As shown on Schedule 2, the recommended changes result in the following rates and rate structure for phase one residential wastewater and reuse rates:

<u>Residential Wastewater</u>	
Monthly Base Charge	$23.32
Gallonage Charge	$3.11 per 1,000 gallons
<u>General Service Water</u>	
Base Facility Charges	
5/8" x 3/4"	$23.32
1"	$58.32
1-1/2"	$116.64
2"	$186.61
3"	$373.23
4"	$583.17
Gallonage Charge	$3.72 per 1,000 gallons
<u>Residential Reuse</u>	
Monthly Base Charge	$5.01
0 - 10,000 gallons	$0.46 per 1,000 gallons
10,001 – 20,000 gallons	$1.02 per 1,000 gallons
20,001 -30,000 gallons	$1.91 per 1,000 gallons
30,001 – 40,000 gallons	$2.73 per 1,000 gallons
Over 40,000 gallons	$3.20 per 1,000 gallons
<u>General Service Reuse</u>	
Gallonage Charge	$0.90 per 1,000 gallons

The recommended reuse rates shown above are designed to encourage the reuse customer to conserve water and therefore increase the availability of reclaimed water for all of Alafaya's reuse customers. Currently, Alafaya has limited options to increase its reclaimed water supply. Augmentation wells are currently not an option. The reuse rates recommended by staff would continue to be less than the City's potable water and reuse rates (see Schedule 1), but would be high enough to encourage conservation.

An Alafaya customer attended the customer meeting and stated that he disconnected from Alafaya's reuse system and connected with the City to use their potable rates for irrigation. The residential reuse rates recommended by staff would remain well below the City's potable water rates. At 10,000 gallons, a typical residential reuse bill for phase one would be $9.58 and $10.24 for phase two. The City's potable water bill would be $25.46 at the 10,000 gallon level.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

The Utility should not be allowed to implement phase two rates until the construction of an Equalization Tank has been completed and approved by DEP. The Utility should provide staff with the approval documentation no later than 15 days after the Utility receives the final approval from DEP. At that time, the Utility should also filed revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice.

Issue 3: What is the appropriate amount by which rates should be reduced four years after established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The rates should be reduced as shown on Schedule No. 2 to remove $8,717 for rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Wright)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for regulatory assessment fees which is $8,717. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 2.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Labrador should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Issue 4: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person?

Recommendation: Yes. The recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person. Prior to implementation of any temporary rates, the Utility should provide appropriate security. UI's total guarantee should be the amount of $436,419. 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 Division of Economic Regulation 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. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. (Wright, Springer)

Staff Analysis: This recommendation proposes an increase in 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, in the event of a protest filed by a substantially affected person, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Alafaya is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Utilities, Inc. (UI or Company) has requested an incremental increase in its corporate undertaking in the amount of $436,419. The current cumulative corporate undertaking amount outstanding for other UI systems is $75,165. The new request would bring the cumulative amount outstanding to $511,584. The following tables list the new request, the other amount(s) outstanding, and the proposed cumulative corporate undertaking amount outstanding for UI. All of these systems are subsidiaries of UI.

New Request for Corporate Undertaking

UI System	Corp. Undertaking Amount	Docket No.
Alafaya Utilities, Inc.	$436,419	090121-SU

Current Corporate Undertaking Amount(s) Outstanding

UI System	Corp. Undertaking Amount	Docket No.
Labrador Utilities, Inc.	$75,165	080249-WS
Proposed Cumulative Total	**$511,584**	

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed the financial statements of the parent company to determine if UI can support a corporate undertaking on behalf of its subsidiaries. UI's 2006, 2007 and 2008 financial statements were used to determine the financial condition of the Company. Net income has been on average three times greater than the requested cumulative corporate undertaking amount over the three year period. However, UI experienced a net loss in 2008. The Company has also experienced a steady decline in its interest coverage ratio and relative level of net income over the three year review period. In addition, UI's average equity ratio has decreased to 40.7 percent in 2008 from 44.8 percent in 2007.

Staff believes UI has inadequate liquidity, profitability, and interest coverage to support a corporate undertaking in the amount requested. While the existing corporate undertaking amount of $75,165 secured on behalf of Labrador Utilities is still appropriate, the incremental increase in funds subject to refund in the amount of $436,419 should be secured. Staff recommends that UI be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any new monies collected subject to refund. 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 refunds 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; and

8) The Commission Clerk must be a signatory to the escrow agreement.

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 corporate undertaking, 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 Division of Economic Regulation 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 5: Should this docket be closed?

Recommendation: If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, a Consummating Order will be issued. If a Consummating Order is issued, the docket should be closed upon its issuance and upon staff's approval of the revised tariff sheets. (Brown, Wright)

Staff Analysis: If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, a Consummating Order will be issued. If a Consummating Order is issued, the docket should be closed upon its issuance and upon staff's approval of the revised tariff sheets.

Alafaya Utilities, Inc. Schedule No. 1

Comparison of Alafaya Residential Reuse Rates and City of Oviedo Reuse and Water Rates

	Alafaya Current Reuse Rates	City of Oviedo Current Reuse Rates	City of Oviedo Current Water Rates	Phase One Staff Recomm. Reuse Rates	Phase Two Staff Recomm. Reuse Rates
Alafaya's Reuse Rates					
All Meters	$3.70				
Gallonage Charge per 1,000 Gallons	$0.39				
City of Oviedo Reuse Rates					
Monthly Base Charge		$9.18			
Reuse Gallonage					
Charge per 1,000 Gallons					
0-10,000 gallons		$1.09			
10,001-20,000 gallons		$1.63			
Over 20,000 gallons		$3.26			
City of Oviedo Water Rates					
Monthly Base Charge			$10.02		
Gallonage Charge					
Charge per 1,000 Gallons					
0-3,000 gallons			$0.83		
3,001-10,000 gallons			$1.85		
10,001-15,000 gallons			$3.48		
15,001-30,000 gallons			$4.96		
Over 30,000 gallons			$5.82		
Staff Recommended Reuse Rates					
Monthly Base Charge				$5.01	$5.36
Gallonage Charge					
Charge per 1,000 Gallons					
0-10,000 gallons				$0.46	$0.49
10,001-20,000 gallons				$1.02	$1.05
20,001 – 30,000 gallons				$1.91	$2.05
30,001 - 40,000 gallons				$2.73	$2.92
Over 40,000 gallons				$3.30	$3.42
Typical Residential Reuse Bill					
10,000 Gallons	$7.60	$20.08	$25.46	$ 9.58	$10.24
20,000 Gallons	$11.50	$36.38	$67.66	$19.75	$21.13
30.000 Gallons	$15.40	$68.98	$117.26	$38.89	$41.61
40,000 Gallons	$19.30	$101.58	$175.46	$66.17	$70.80

Alafaya Utilities, Inc. Schedule No. 2
Phase One Monthly Service Rates

	Present Rates	Recommended Increase	Recommended Rates	Four-Year Rate Reduction
Residential Base Facility Charge				
5/8 x 3/4"	$21.65	$1.67	$23.32	$0.31
Gallonage Charges per 1,000 Gallons	$2.89	$0.22	$ 3.11	$0.04
General Service				
Base Facility Charges				
5/8 x 3/4"	$21.65	$1.67	$23.32	$0.31
1"	$54.14	$4.18	$58.32	$0.78
1-1/2"	$108.29	$8.35	$116.64	$1.55
2"	$173.35	$13.36	$186.61	$2.49
3"	$346.50	$26.73	$373.23	$4.97
4"	$541.41	$41.76	$583.17	$7.77
Gallonage charge per 1,000 gallons	$3.45	$0.27	$3.72	$0.05
Residential Reuse BFC	$3.70	$1.31	$5.01	$0.07
Residential Reuse Gallonage Charge per 1,000 Gallons	$0.39			
0-10,000 gallons		$0.07	$0.46	$0.01
10,001 - 20,000 gallons		$0.63	$1.02	$0.01
20,001 - 30,000 gallons		$1.52	$1.91	$0.03
30,000 – 40,000 gallons		$2.34	$2.73	$0.03
Over 40,000 gallons		$2.81	$3.20	$0.04
Reuse General Service Charge Per 1,000 Gallons	$0.64	$0.26	$0.90	$0.01

	Typical Residential Bills 5/8" x ¾" Meter	
3.000 Gallons	$30.32	$32.66
5,000 Gallons	$36.10	$38.88
10,000 Gallons	$50.55	$54.45

Alafaya Utilities, Inc. Schedule No. 3
Phase Two Monthly Service Rates

	Phase One Rates	Recommended Increase	Recommended Rates
Residential Base Facility Charge			
5/8 x 3/4"	$23.32	$1.63	$24.95
Gallonage Charges per 1,000 Gallons	$3.11	$0.22	$ 3.33
General Service			
Base Facility Charges			
5/8 x 3/4"	$23.32	$1.63	$24.95
1"	$58.32	$4.08	$62.40
1-1/2"	$116.64	$8.16	$124.80
2"	$186.61	$13.05	$199.67
3"	$373.23	$26.10	$399.33
4"	$583.17	$40.79	$623.96
Gallonage charge per 1,000 gallons	$3.72	$0.26	$3.98
Residential Reuse BFC	$5.01	$0.35	$5.36
Residential Reuse Gallonage Charge per 1,000 Gallons			
0-10,000 gallons	$0.46	$0.03	$0.70
10,001-20,000 gallons	$1.02	$0.07	$1.05
20,001- 30,000 gallons	$1.91	$0.13	$2.05
30,001 – 40,000 gallons	$2.73	$0.19	$2.92
Over 40,000 gallons	$3.20	$0.22	$3.42
Reuse General Service Charge Per 1,000 Gallons	$0.90	$0.06	$0.96

	Typical Residential Bills 5/8" x ¾" Meter		
3.000 Gallons	$32.66		$34.94
5,000 Gallons	$38.88		$41.60
10,000 Gallons	$54.45		$58.26