

# FLORIDA PUBLIC SERVICE COMMISSION

## COMMISSION CONFERENCE AGENDA

**CONFERENCE DATE AND TIME:** Thursday, August 2, 2012, 9:30 a.m.

**LOCATION:** Betty Easley Conference Center, Joseph P. Cresse Hearing Room 148

**DATE ISSUED:** July 20, 2012

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### NOTICE

Persons affected by Commission action on certain items on this agenda may be allowed to address the Commission, either informally or by oral argument, when those items are taken up for discussion at this conference. These items are designated by double asterisks (\*\*) next to the agenda item number.

To participate informally, affected persons need only appear at the agenda conference and request the opportunity to address the Commission on an item listed on agenda. Informal participation is not permitted: (1) on dispositive motions and motions for reconsideration; (2) when a recommended order is taken up by the Commission; (3) in a rulemaking proceeding after the record has been closed; or (4) when the Commission considers a post-hearing recommendation on the merits of a case after the close of the record. The Commission allows informal participation at its discretion in certain types of cases (such as declaratory statements and interim rate orders) in which an order is issued based on a given set of facts without hearing.

See Rule 25-22.0021, F.A.C., concerning Agenda Conference participation and Rule 25-22.0022, F.A.C., concerning oral argument.

Agendas, staff recommendations, vote sheets, transcripts, and conference minutes are available from the PSC Web site, <http://www.floridapsc.com>, by selecting *Agenda & Hearings* and *Agenda Conferences of the FPSC*. By selecting the docket number, you can advance to the *Docket Details* page and the Document Index Listing for the particular docket. If you have any questions, contact the Office of Commission Clerk at (850) 413-6770 or e-mail the clerk at [Clerk@psc.state.fl.us](mailto:Clerk@psc.state.fl.us).

In accordance with the American with Disabilities Act, persons needing a special accommodation to participate at this proceeding should contact the Office of Commission Clerk no later than five days prior to the conference at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, via 1-800-955-8770 (Voice) or 1-800-955-8771 (TDD), Florida Relay Service. Assistive Listening Devices are available at the Office of Commission Clerk, Betty Easley Conference Center, Room 110.

The Commission Conference has a live video broadcast the day of the conference, which is available from the PSC's Web site. Upon completion of the conference, the video will be available from the Web site by selecting *Agenda and Hearings* and *Audio and Video Event Coverage*.

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August 2, 2012

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Agenda for  
Commission Conference  
August 2, 2012

**ITEM NO.**

**CASE**

1	<b>Approval of Minutes</b> May 22, 2012, Regular Commission Conference						
2**	<b>Consent Agenda</b>						
PAA	A) Application for Certificate of Authority to Provide Telecommunications Service.						
	<table><tr><td><u>DOCKET</u></td><td><u>COMPANY NAME</u></td><td><u>CERT.NO.</u></td></tr><tr><td>120180-TX</td><td>Nettalk.Com Inc. d/b/a Nettalk</td><td>8830</td></tr></table>	<u>DOCKET</u>	<u>COMPANY NAME</u>	<u>CERT.NO.</u>	120180-TX	Nettalk.Com Inc. d/b/a Nettalk	8830
<u>DOCKET</u>	<u>COMPANY NAME</u>	<u>CERT.NO.</u>					
120180-TX	Nettalk.Com Inc. d/b/a Nettalk	8830					

**Recommendation:** The Commission should approve the action requested in the docket referenced above and close the docket.

**ITEM NO.**

**CASE**

3\*\*

**Docket No. 120150-TL** – 2013 State Annual certification of rural telecommunications carriers pursuant to 47 C.F.R. 54.314, High Cost Universal Service.

**Critical Date(s):** October 1, 2012 Filing Deadline with the FCC

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Administrative

**Staff:** TEL: Polk

GCL: Robinson

**Issue 1:** Should the FPSC certify to the FCC and to the USAC that Windstream Florida, Inc., Frontier Communications of the South, LLC, GTC, Inc. d/b/a FairPoint Communications, ITS Telecommunications Systems, Inc., Northeast Florida Telephone Company d/b/a NEFCOM, Quincy Telephone Company d/b/a TDS Telecom/Quincy Telephone, and Smart City Telecommunications, LLC d/b/a Smart City Telecom, have used the federal high-cost support in the preceding calendar year, and will use the federal high-cost support they receive in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended?

**Recommendation:** Yes. The FPSC should certify to the FCC and to the USAC that Windstream Florida, Inc., Frontier Communications of the South, LLC, GTC, Inc. d/b/a FairPoint Communications, ITS Telecommunications Systems, Inc., Northeast Florida Telephone Company d/b/a NEFCOM, Quincy Telephone Company d/b/a TDS Telecom/Quincy Telephone, and Smart City Telecommunications, LLC d/b/a Smart City Telecom, have used the federal high-cost support in the preceding calendar year, and will use the federal high-cost support they receive in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. This docket should be closed and subsequent annual certifications of rural telephone companies should be addressed in a new docket.

**ITEM NO.**

**CASE**

4\*\*PAA

**Docket No. 110141-WS** – Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Brown

**Staff:** AFD: Smith, Fletcher, Maurey

ECO: Bruce, Hudson

ENG: Simpson, Ballinger

GCL: Tan

**(Proposed Agency Action - Except Issue Nos. 12 and 16.)**

**Issue 1:** Is the quality of service provided by Grenelefe satisfactory?

**Recommendation:** Yes. The quality of service provided by the Utility should be considered satisfactory.

**Issue 2:** What are the used and useful percentages for Grenelefe?

**Recommendation:** The water treatment plant, wastewater treatment plant, and distribution and collections systems should be considered 100 percent used and useful. A 10 percent adjustment should be made to chemicals and purchased power to reflect excessive unaccounted for water.

**Issue 3:** What is the appropriate average test year rate base for Grenelefe?

**Recommendation:** The appropriate average test year rate base for Grenelefe is \$215,553 for water and \$90,680 for wastewater.

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

**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 8.74 percent.

**Issue 5:** What is the appropriate amount of test year revenue in this case?

**Recommendation:** The appropriate test year revenue for Grenelefe is \$305,485, of which \$164,803 is related to potable water service and \$140,682 is related to non-potable water service. The appropriate test year revenue for wastewater is \$169,690.

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

**Recommendation:** The appropriate amount of operating expense for Grenelefe is \$209,764 for water and \$228,125 for wastewater.

**Issue 7:** What is the appropriate revenue requirement for non-potable water service?

**Recommendation:** The appropriate revenue requirement for non-potable water service is \$121,896.

**ITEM NO.**

**CASE**

4\*\*PAA

**Docket No. 110141-WS** – Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.

(Continued from previous page)

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$228,604 for potable water. This revenue requirement for potable water includes all adjustments contained in Issue 6. A separate revenue requirement for non-potable water is contained in Issue 7. The appropriate revenue requirement for wastewater is \$236,050.

**Issue 9:** What are the appropriate rate structures for the Utility's water and wastewater systems?

**Recommendation:** The appropriate rate structure for the Utility's residential water class, which includes potable irrigation service for the residential customers, is a four tier inclining block rate structure. Staff's preliminary rate design called for a three-tier rate structure with usage blocks of: a) 0-10 kgals in the first usage block; b) 10-15 kgals in the second usage block; and c) all usage in all excess of 15 kgals in the third block. However, as discussed in Issue 10, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 5 kgal per month. This results in a four-tier rate structure for monthly consumption with usage blocks of: a) 0-5 kgal; b) 5-10 kgal; c) 10-15 kgal; and d) all usage in excess of 15 kgals in the fourth usage block with usage block rate factors of .82, 1.0, 1.5, and 2.0 respectively. The appropriate rate structure for the water system's non-residential class, which includes potable irrigation for the non-residential customers, is a BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 55 percent. Furthermore, the appropriate rate structure for the wastewater residential class and non-residential class is a continuation of the traditional BFC/gallonage charge rate structure. The BFC cost recovery percentage for the wastewater system should be set at 65 percent. The residential wastewater gallonage cap should be set at 8 kgals. Also, the Utility's non-potable rate structure should remain unchanged.

ITEM NO.

CASE

4\*\*PAA

**Docket No. 110141-WS** – Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.

(Continued from previous page)

**Issue 10:** Is a repression adjustment appropriate in this case, and, if so, what are the appropriate adjustments?

**Recommendation:** Yes, a repression adjustment is appropriate for this Utility. Test year residential kgals sold for water should be reduced by 10.4 percent, resulting in a consumption reduction of 3,992 kgals. Purchased power expense should be reduced by \$1,217, chemical expense should be reduced by \$425, and regulatory assessment fees (RAFs) should be reduced by \$77. The final post-repression revenue requirement for the water system should be \$208,098. For the wastewater system, test year kgals sold should be reduced by 15.99 percent, resulting in a consumption reduction of 3,575 kgals. Sludge removal expense should be reduced by \$6,155, purchased power should be reduced by \$3,471, chemical expense should be reduced by \$1,208, and RAFs should be reduced by \$488. The final post-repression revenue requirement for the wastewater system should be \$224,729.

In order to monitor the effect of the changes to rate structure and rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

**Issue 11:** What are the appropriate rates for Grenelefe?

**Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively, of staff's memorandum dated July 20, 2012. The recommended rates should be designed to produce revenue of \$208,098 for water and \$224,729 for wastewater, excluding miscellaneous service charges. 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.

ITEM NO.

CASE

4\*\*PAA

**Docket No. 110141-WS** – Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.

(Continued from previous page)

**Issue 12:** What is the appropriate amount by which rates should be reduced four years after 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, of staff's memorandum dated July 20, 2012, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Grenelefe 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 13:** Should the Commission approve the Utility's requested increase in miscellaneous service charges, after hour charges, late fee, and NSF check fees?

**Recommendation:** Yes. The Commission should approve Utility's requested after hour charges, increase in miscellaneous service charges, late fee, and NSF check fees. Within five working days of the issuance of the order, staff recommends that the Utility be required to provide a proposed customer notice of the approved charges for staff's review and approval. Once staff has approved the proposed customer notice, the Utility may choose to either mail the notice separately to customers or insert it with the next billing cycle. The tariff sheet containing the approved miscellaneous service charges and the after hour charges should become effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the fees should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notice required in other issues.

**Issue 14:** What are the appropriate customer deposits for Grenelefe?

**Recommendation:** The appropriate customer deposits to be charged 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.



ITEM NO.

CASE

4\*\*PAA

**Docket No. 110141-WS** – Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.

(Continued from previous page)

**Issue 15:** 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 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, in the event of a protest filed by a party other than the Utility. Grenelefe 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 in the staff analysis portion of staff's recommendation dated July 20, 2012. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's Office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 16:** 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, Grenelefe 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 17:** 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 will 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.

**ITEM NO.**

**CASE**

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5\*\*PAA

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**Docket No. 110260-WS** – Application for staff-assisted rate case in Lee County by Useppa Island Utilities Co., Inc.

**Critical Date(s):** 01/28/13 (15-Month Effective Date SARC)

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Brisé

**Staff:** AFD: Fletcher, Maurey  
GCL: Murphy, Teitzman

**Issue 1:** Should the Commission approve the Joint Motion requesting Commission approval of Settlement Agreement?

**Recommendation:** Yes. The Joint Motion requesting approval of the Settlement Agreement should be approved. The Utility should file a proposed customer notice and revised tariff sheets consistent with the Commission's decision within 15 days of the Commission vote. 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., after staff has verified that the proposed customer notice is adequate and the notice has been provided to the customers. The Utility should provide proof that the customers have received notice within 10 days of the date of the notice.

**Issue 2:** Should this docket be closed?

**Recommendation:** No. If no timely protest is received from a sustainably affected person, upon expiration of the protest period, the PAA Order will become final upon the issuance of a consummating order. If the Commission approves staff's recommendation in Issue 1, this docket should remain open to address Phase II rates in accordance with the Parties' Stipulation and Settlement Agreement.

**ITEM NO.**

**CASE**

6\*\*PAA

**Docket No. 110165-SU** – Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Brown

**Staff:** AFD: Fletcher, Maurey, Prestwood  
ECO: Hudson, Roberts, Bruce, Stallcup  
ENG: Simpson, Ballinger  
GCL: Robinson, Teitzman

**(Proposed Agency Action - Except for Issue Nos. 11 and 16.)**

**Issue 1:** Is the quality of service provided by the Utility satisfactory?

**Recommendation:** Yes. The quality of service for the Utility is satisfactory.

**Issue 2:** What are the used and useful percentages of the wastewater treatment plant and the collection system?

**Recommendation:** The wastewater treatment plant (WWTP) and collection system should be considered 13 and 69 percent used and useful (U&U), respectively.

**Issue 3:** What is the appropriate average test year rate base for Utility Corporation?

**Recommendation:** The appropriate average test year rate base for Utility Corporation is \$32,900.

**Issue 4:** What is the appropriate return on equity and overall rate of return for Utility Corporation?

**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 8.74 percent.

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

**Recommendation:** The appropriate test year revenue for this Utility is \$124,980.

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

**Recommendation:** The appropriate amount of operating expense for the Utility is \$141,638.

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

**Recommendation:** Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for Utility Corporation. The margin should be 7.81 percent of O&M expense.

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$151,638.

ITEM NO.

CASE

6\*\*PAA

**Docket No. 110165-SU** – Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

(Continued from previous page)

**Issue 9:** Should the Utility's current wastewater and reuse systems' rate structures be changed?

**Recommendation:** No. The Utility's current wastewater and reuse systems' rate structures should remain unchanged.

**Issue 10:** What are the appropriate rates for Utility Corporation?

**Recommendation:** The appropriate monthly wastewater rates are shown on Schedules No. 4 of staff's memorandum dated July 20, 2012. The recommended rates should be designed to produce revenues of \$151,638. 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)(c), 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 11:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The wastewater rates should be reduced as shown on Schedule No. 4, of staff's memorandum dated July 20, 2012, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Utility Corporation 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:** Should Utility Corporation's request for a service availability charge be approved?

**Recommendation:** No. Utility Corporation's request for a service availability charge should not be approved.

ITEM NO.

CASE

6\*\*PAA

**Docket No. 110165-SU** – Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

(Continued from previous page)

**Issue 13:** Should the Commission approve Utility Corporation's requested \$5.25 late payment charge?

**Recommendation:** Yes. The Commission should approve the Utility's requested \$5.25 late payment charge. The late payment charge should be effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C.

**Issue 14:** Should the Commission approve pro forma plant for Utility Corporation, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement, and date for implementing the new rates?

**Recommendation:** Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. Staff is recommending the Commission employ the operating ratio methodology in this case. However, even when the operating ratio methodology is used for purposes of setting rates, every utility should have an authorized ROE established. Utility Corporation's appropriate ROE should be 8.74 percent with a range of 7.74 to 9.74 percent. The appropriate overall rate of return is 8.74 percent. The Utility's Phase II revenue requirement is \$155,215 which equates to an increase of 2.36 percent over the Phase I revenue requirement. Staff recommends that the Phase II revenue requirement increase should be applied as an across-the-board increase to Phase I rates.

Utility Corporation should complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Utility Corporation should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

ITEM NO.

CASE

6\*\*PAA

**Docket No. 110165-SU** – Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.

(Continued from previous page)

**Issue 15:** Should the recommended rates be approved for Utility Corporation on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

**Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Utility Corporation 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 in the staff analysis portion of staff's recommendation dated July 20, 2012. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 16:** Should Utility Corporation be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable NARUC Uniform System of Accounts (USOA) primary accounts associated with the Commission-approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Utility Corporation 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 17:** 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 will 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.

**ITEM NO.**

**CASE**

7\*\*PAA

**Docket No. 110200-WU** – Application for increase in water rates in Franklin County by Water Management Services, Inc.

**Critical Date(s):** 5-Month Effective Date Waived Through 08/02/12.

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Brown

**Staff:** AFD: T. Brown, Cicchetti, Fletcher, Maurey

ECO: King, Draper, Kummer, Stallcup

ENG: Rieger; Ballinger

GCL: Jaeger, Barrera

**(Proposed Agency Action - Except for Issue Nos. 26 and 27.)**

**Issue 1:** Is the quality of service provided by Water Management Services, Inc. considered satisfactory?

**Recommendation:** Yes, the overall quality of service provided by the Utility should be considered satisfactory.

**Issue 2:** Should the audit adjustments to which the Utility and staff agree be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility and staff, operations and maintenance (O&M) expenses should be reduced by \$877.

**Issue 3:** Should any audit adjustments contested by the Utility be made to rate base?

**Recommendation:** Yes. WMSI's test year rate base should be adjusted as follows: plant should be increased by \$3,426, and accumulated depreciation should be increased by \$1,420. The following corresponding adjustments should also be made: depreciation expense should reflect a net decrease of \$23,811, and taxes other than income should be decreased by \$1,647.

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

**Recommendation:** Yes. Miscellaneous expenses should be decrease by \$9,320 plant should be increased by \$9,320 to reclassify items that should have been capitalized to plant. Accordingly, a corresponding adjustment should be made to increase depreciation expense by \$298.

ITEM NO.

CASE

7\*\*PAA

**Docket No. 110200-WU** – Application for increase in water rates in Franklin County by Water Management Services, Inc.

(Continued from previous page)

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

**Recommendation:** Yes. Staff recommends that a phased-in approach is appropriate. All of WMSI's pro forma plant and land costs should be removed from Phase I. Staff's recommended Phase II adjustments are reflected in the staff analysis portion of staff's recommendation dated July 20, 2012. The Utility should be allowed to implement Phase II rates only after all pro forma items have been completed, placed in commercial service, and copies of the final invoices and cancelled checks have been provided. Once verified by staff, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. WMSI should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

**Issue 6:** What are the used and useful percentages of the Utility's water system?

**Recommendation:** WMSI's water treatment plant (WTP) and storage facilities should be considered 100 percent used and useful (U&U). The Utility's transmission and distribution (T&D) mains should be considered 100 percent U&U, except for the distribution lines serving the Plantation subdivision that are less than 8 inches in diameter. The distribution lines in the Plantation that are less than 8 inches in diameter should be considered 60.9 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by \$18,023, \$1,833, and \$154, respectively.

**Issue 7:** What is the appropriate amount of unamortized rate case expense?

**Recommendation:** The appropriate unamortized rate case expense (URCE) is \$176,850.

**Issue 8:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is zero, which results in a reduction in the Utility's working capital allowance of \$39,885.

**Issue 9:** What is the appropriate rate base for the test year period ended December 31, 2010?

**Recommendation:** Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2010, for Phase I is \$3,729,581. The appropriate rate base for Phase II is \$7,091,463.



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**Issue 10:** What is the appropriate return on equity?

**Recommendation:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 11.16 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. However, it has no effect on the amount of the proposed rate increase because the Utility's capital structure consists of only long-term debt and customer deposits.

**Issue 11:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2010 is 4.44 percent for Phase I and 5.51 percent for Phase II.

**Issue 12:** Should any adjustments contested by the Utility be made to test year O&M expenses?

**Recommendation:** Yes. WMSI's test year O&M expenses should be reduced by \$70,982. In addition, plant should be increased by \$6,465. Further, accumulated depreciation and depreciation expense should be increased by \$148 and \$323, respectively.

**Issue 13:** Should any adjustments be made to the Utility's contractual services – accounting expense?

**Recommendation:** Yes, contractual services – accounting expense should be reduced by \$5,883.

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

**Recommendation:** The appropriate amount of rate case expense is \$124,519. This expense should be recovered over four years for an annual expense of \$31,130. Therefore, annual rate case expense should be reduced by \$23,870.

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**Issue 15:** Have the Utility's cash advances to WMSI's President and associated companies in the amount of \$1.2 million, represented by Account 123, affected the Utility's ability to meet its financial and operating responsibilities? If so, what action, if any, should the Commission take?

**Recommendation:** Yes. The Utility's cash advances to WMSI's President and associated companies in the amount of \$1.2 million have impaired the Utility's ability to meet its financial and operating responsibilities. The Commission should accept the Utility's proposal to escrow, on a monthly basis, the amount necessary to pay its annual debt service as described in the staff analysis. In conjunction with this payment arrangement, staff also recommends that WMSI be required to file an affidavit with the Commission signed by a representative of the Utility attesting that the payment has been made within 5 working days of each payment. Finally, staff recommends the Utility President's salary be reduced for managerial imprudence. The amount of the salary reduction should be \$33,688 per year. As part of this adjustment, pensions and benefits expense should be reduced by \$8,176 and payroll taxes should be reduced by \$2,577. The total adjustment is \$44,441 (\$33,688 + \$8,176 + \$2,577).

**Issue 16:** How should the net gain on sale of land and other assets be treated?

**Recommendation:** The gain on sale of land and other assets of the Utility should be amortized over five years. The annual amortization is \$1,159.

**Issue 17:** What is the appropriate revenue requirement?

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

	Test Year		Revenue	
	<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Phase I	\$1,305,587	\$132,908	\$1,438,495	10.18%
Phase II	\$1,437,866	\$346,491	\$1,784,357	24.10%

**Issue 18:** What are the appropriate billing determinants for the historical test year ending December 31, 2010?

**Recommendation:** The appropriate test year billing determinants before repression are those listed in the MFR Schedules E-2 and E-14.

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**Issue 19:** What are the appropriate rate structures for the Utility's water systems?

**Recommendation:**

Phase I: The appropriate rate structure for the Phase I residential class increase is a continuation of the existing three-tier inclining block rate structure and base facility charge cost recovery percentage of 50 percent. Because staff is recommending a relatively small revenue requirement increase of 10.18 percent, staff recommends an across the board increase in the base facility charge (BFC) and gallonage charges. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure.

Phase II: The appropriate rate structure for the Phase II residential class increase is a two-tier inclining block rate structure with the base facility charge cost recovery percentage of 50 percent. The usage blocks should be set for monthly usage levels of 0 – 6 kgals and for usage in excess of 6.001 kgals. The appropriate rate structure for all non-residential classes is a continuation of the BFC/uniform gallonage charge rate structure. However, prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of equivalent residential connections (ERC) and kgals sold in the 12 months prior to its request to implement the Phase II rates. If during that 12-month period, the ERCs or kgals have increased or decreased by 5 percent or more, the Utility should file updated MFR E-14 Schedules so that the recommended Phase II rate structure may be evaluated, and if necessary, amended.

**Issue 20:** Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this Utility?

**Recommendation:**

Phase I: No, a repression adjustment is not appropriate for Phase I rates.

Phase II: Yes, based on billing determinants for the historical test year ending December 31, 2010 a repression adjustment is appropriate for Phase II. Residential consumption should be reduced by 5 percent, resulting in a consumption reduction of approximately 5.7 kgals. However, if ERCs or kgals either increase or decrease by 5 percent or more prior to the implementation of Phase II rates, as discussed previously, the repression adjustment should be evaluated and amended if necessary.

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**Issue 21:** What are the appropriate water rates for the Utility?

**Recommendation:**

Phase I: The appropriate Phase I monthly rates are shown on Schedule No. 4 of staff's memorandum dated July 20, 2012. Excluding miscellaneous service revenues, the Phase I recommended water rates are designed to produce total Utility revenues of \$1,432,994. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

Phase II: The appropriate Phase II monthly rates are shown on Schedule No. 8 of staff's memorandum dated July 20, 2012. Excluding miscellaneous service revenues, the Phase II recommended water rates are designed to produce total Utility revenues of \$1,778,856. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. Prior to the implementation of the Phase II rate structure, the Utility should review and report to the Commission the number of ERCs and kgals sold in the 12 months prior to their request to implement the Phase II rates. If either ERCs or kgals increase or decrease by 5 percent or more prior to the implementation of Phase II rates, the repression adjustment should be re-evaluated and amended if necessary.

**Issue 22:** Should the Utility's request for approval of a \$5.00 late fee be granted?

**Recommendation:** Yes. The Utility's requested late fee of \$5.00 should be approved. The late fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notices required in other issues.

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**Issue 23:** Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

**Recommendation:** Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within ten days of the date of the notice. This notice may be combined with the notice required in other issues.

**Issue 24:** Should the Utility be authorized to revise certain service availability charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. WMSI's service availability charges should be revised. Staff's recommended charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and should be approved. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised service availability charges are reflected below.

**Plant Capacity Charge:**

Residential	\$3,387
All others, per Gallon/day	\$9.68

**Main Extension Charge:**

Residential	\$1,523
All others, per Gallon/day	\$4.35

**Meter Installation:**

Residential	\$400
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**Issue 25:** 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 rate case expense and other items not in effect during the interim period. This revised water revenue requirement for the interim collection period should be compared to the amount of interim water revenue requirement granted. This results in no interim refund. As such, the escrow account should be released.

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**Issue 26:** What is the appropriate amount by which rates should be reduced four years after the 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 for water related annual rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. If the recommended pro forma projects are completed after the four-year amortization period, the decreased revenue of \$35,492 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 4 of staff's memorandum dated July 20, 2012. If the recommended pro forma projects are completed within the four-year amortization period, the decreased revenue of \$36,190 associated with rate case expense will result in the rate reduction recommended by staff on Schedule No. 8 of staff's memorandum dated July 20, 2012. 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. 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. WMSI should provide proof of the date notice was given within 10 days of 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 27:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable 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, WMSI should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

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**Issue 28:** 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 will 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. Also, the docket should remain open to allow for a review of the ERCs and gpd usage, and for staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.