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Commission Conference Agenda
May 5, 2015

# Item 1

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Office of Telecommunications (Williams, Casey) CW
Office of General Counsel (Page) PHP S.MC. BR

**RE:** Docket No. 140029-TP – Request for submission of proposals for relay service, beginning in June 2015, for the deaf, hard of hearing, deaf/blind, or speech impaired, and other implementation matters in compliance with the Florida Telecommunications Access System Act of 1991.

**AGENDA:** 05/05/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** ~~Brisé~~ Administrative 4-23-15

**CRITICAL DATES:** July 1, 2015 – Effective date of Florida Telecommunications Relay, Inc. budget. Notification of any change in the Telecommunications Access System Act surcharge must be made to carriers prior to July 1, 2015.

**SPECIAL INSTRUCTIONS:** Anticipate the need for sign language interpreters and assisted listening devices. Please place near the beginning of the agenda to reduce interpreter costs.

## Case Background

The Florida Relay System provides deaf and hard of hearing persons access to basic telecommunications services by using a specialized Communications Assistant that relays information between the deaf or hard of hearing person and the other party to the call. The primary function of the Florida Relay System is accomplished by the deaf or hard of hearing person using a Telecommunications Device for the Deaf where the person using the Telecommunications Device for the Deaf types a message to the Communications Assistant who in turn voices the message to the other party, or a Captioned Telephone which displays real-time captions of the conversation.

The Telecommunications Access System Act of 1991 (TASA) established a statewide telecommunications relay system which became effective May 24, 1991. The Telecommunications Access System Act is authorized pursuant to Chapter 427, Florida Statutes (F.S.). Section 427.701(1), F.S., provides that the Florida Public Service Commission (Commission) shall establish, implement, promote, and oversee the administration of the statewide telecommunications access system to provide access to telecommunications relay services by persons who are deaf, hard of hearing or speech impaired, or others who communicate with them. It is estimated that three million of the estimated 19 million persons living in Florida have been diagnosed as having a hearing loss. This system provides telecommunications service for deaf or hard of hearing persons functionally equivalent to the service provided to hearing persons.

TASA provides funding for the distribution of specialized telecommunications devices and provision of intrastate relay service through the imposition of a surcharge of up to $0.25 per landline access line per month. Accounts with over 25 access lines are billed for only 25 lines. Pursuant to Section 427.704(4)(a)1, F.S., a surcharge is collected only from landline access lines.[1]

Florida Telecommunications Relay, Inc. (FTRI), a non-profit corporation formed by the local exchange telephone companies, was selected by the Commission to serve as the Telecommunications Access System Act Administrator. On July 1, 1991, the local exchange telecommunications companies began collecting an initial $.05 per access line surcharge pursuant to Order No. 24581. Since that time, the surcharge has changed to reflect budgetary needs, but has been maintained at $0.11 per month since June 2007.

In regards to the $0.11 surcharge, it is important to point out that Chapter 427, F.S., requires that the relay system be compliant with regulations adopted by the Federal Communications Commission (FCC) to implement Title IV of the Americans with Disabilities Act. The FCC mandates the minimum requirements for services a state must provide, certifies each state program, and periodically proposes changes in the stipulated services.

Staff sent a data request to FTRI on a number of issues included in its proposed budget. FTRI's responses to staff's data request are included in the docket file. The purpose of this recommendation is to address the FTRI proposed 2015/2016 fiscal year budget. The Commission is vested with jurisdiction pursuant to Chapter 427, F.S.

[1] Florida Telecommunications Relay, Inc. projects a 4 percent decrease in landline access lines subject to the relay surcharge for the budget year 2015/2016.

## Discussion of Issues

**Issue 1**: Should the Commission approve FTRI's proposed budget as outlined in Attachment A for fiscal year 2015/2016, effective July 1, 2015, and should the Commission maintain the current Telecommunications Relay Service (TRS) surcharge of $0.11 per month?

**Recommendation**: Staff recommends the Commission approve Option 4 in staff's analysis which reduces FTRI's proposed budget by $851,774. FTRI should determine which individual accounts of Category II, Category III, Category IV, and Category V expenses should be adjusted to equal the Commission-approved decrease. Staff recommends that FTRI re-submit its budget within 30 days of the Commission vote. The revised budget should show adjustments to the individual accounts reflecting the $851,774 decrease. Staff recommends that staff be granted administrative authority to approve the resubmitted budget as long as it adheres to the Commission's decision. However, if the revised budget indicates an allocation of funds inconsistent with the purpose and intent of TASA, staff will bring the revised budget back to the Commission for further consideration. Staff also recommends that the TRS surcharge be maintained at $0.11 per month for fiscal year 2015/2016, effective July 1, 2015. The Commission should order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to continue to bill the $0.11 surcharge for fiscal year 2015/2016, effective July 1, 2015. (Williams, Casey, Page)

**Staff Analysis**: Minutes of use for traditional TRS continue to decline. Traditional relay users are transitioning to the more efficient technologies of Internet Protocol Relay,[2] Video Relay Service,[3] Captioned Telephone Service,[4] Internet Protocol Captioned Telephone Service,[5] Internet Protocol Speech to Speech service,[6] and wireless service. Minutes of use for CapTel service have also declined.

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[2] IP Relay allows people who have difficulty hearing or speaking to communicate through an Internet connection using a computer and the Internet, rather than a TTY and a telephone.

[3] Video Relay Service (VRS) is a form of Telecommunications Relay Service that enables persons with hearing disabilities who use American Sign Language to communicate with voice telephone users through video equipment, rather than through typed text. Video equipment links the VRS user with a TRS operator so that the VRS user and the operator can see and communicate with each other in signed conversation. Because the conversation between the VRS user and the operator flows much more quickly than with a text-based TRS call, VRS has become a popular form of TRS.

[4] A telephone that displays real-time captions of a conversation. The captions are typically displayed on a screen embedded into the telephone base.

[5] IP captioned telephone service allows the user to simultaneously listen to, and read the text of, what the other party in a telephone conversation has said, where the connection carrying the captions between the service and the user is via an IP addressed and routed link.

[6] Speech to Speech relay service utilizes a specially trained CA who understands the speech patterns of persons with speech disabilities and can repeat the words spoken by such an individual to the other party to the call. IP STS uses the Internet, rather than the public switched telephone network, to connect the consumer to the relay provider. Instead of using a standard telephone to make the relay call, an IP STS user can use a personal computer or personal digital assistant (PDA) device and, with the installation of softphone application software, can make a voice call via the Internet to the relay provider. The call is initiated by the user clicking on an icon on his or her computer or PDA; the relay user is then connected to a CA over the Internet and tells the CA the number to be dialed; the CA then connects the IP STS user with the called party and relays the call between the two parties.

Access lines in Florida to which the relay surcharge applies continue to decline. FTRI points out in its filing that since fiscal year 2008, access lines have decreased from an average of 9,194,091 for that period to 6,284,851 for fiscal year 2014, a loss of 2,909,240 access lines. FTRI maintains that declining access lines is one of the primary reasons for its projected shortfall. As presented in its cover letter accompanying its budget, FTRI's revenue forecast is based on a 4 percent decline in access lines.

FTRI's proposed budget is also impacted by an increase in the cost of relay service. FTRI will incur higher relay provider cost based on the new contract for relay service with Sprint which went into effect on March 1, 2015. The TRS cost for the AT&T contract was $0.76 per session minute, and the CapTel cost was $1.47 per session minute. The TRS rate offered by Sprint under the current contract is $1.09 per session minute and $1.63 per session minute for CapTel.

FTRI Proposed Budget

Attachment A reflects FTRI's proposed 2015/2016 fiscal year budget, which was reviewed and adopted by the FTRI Board of Directors on March 6, 2015, prior to filing with the Commission. After a staff review of the proposed budget, staff believes there are four options for the Commission to consider.

Option 1 – Approve FTRI budget as filed using the relay surplus account to offset the $851,774 deficit.

FTRI's 2015/2016 proposed budget filing includes a deficit of $851,774 which it believes can be eliminated by transferring funds from the surplus account. Option 1 recommends that the $851,774 proposed FTRI budget deficit be eliminated by transferring funds from the relay surplus account to FTRI.

The relay surplus account was created to offset intrastate Internet Relay costs which the FCC continues to maintain in its orders should be absorbed by the states. Presently, the interstate TRS Fund is paying for both intrastate and interstate Internet Relay such as Video Relay Service, Internet Protocol Relay Service, and Internet Protocol Captioned Telephone Service. Traditional relay users are transitioning to these Internet Protocol technologies which are more efficient, and presently being paid through the interstate TRS fund. However, the FCC as recently as August 2013, stated that this arrangement is only temporary. The FCC believes Title IV and its legislative history make plain that Congress intended that the states be responsible for the cost recovery for intrastate relay services provided under their jurisdiction.[7]

In a February 25, 2015 FCC meeting with the National Association for State Relay Administration (NASRA), and the Telecommunications Equipment Distribution Program Association (TEDPA),[8] the FCC verbally stated that it is "exploring the option of the IP CTS funding to stay with the Interstate TRS fund and the obligation for managing the program shift to

[7] Federal Communications Commission Report and Order and Further Notice of Proposed rulemaking, CG Docket No. 03-123, released on August 26, 2013, FCC 13-118, ¶135.
[8] The Commission is a member state of NASRA, and James Forstall, FTRI Executive Director, is Chair of TEDPA.

the Equipment Distribution Programs (EDP)."[9] However, the Telecom Act, and all FCC Orders to date have indicated that states will be responsible for the cost recovery for intrastate relay services provided under their jurisdiction.

If the FCC were to mandate state funding of Video Relay Service, Internet Protocol Relay Service, and Internet Protocol Captioned Telephone Service, it is estimated that at least $32 million would be needed to adequately fund the state program. Staff believes that if Florida had to absorb the intrastate costs of these Internet Protocol technologies, the maximum $0.25 per access line relay surcharge mandated by state law would be exceeded and a change in state law would be required.[10]

The Commission, by Order PSC-06-0469-PAA-TP, issued June 1, 2006, in Docket No. 040763-TP, maintained the FTRI surcharge at $0.15/month for one year in lieu of a surcharge reduction, to prepare the state Telecommunications Relay Service Fund for assuming the intrastate costs of Video Relay Service and Internet Protocol Relay, and to allow time to determine how the costs should be recovered. The FCC has acknowledged that should it decide to mandate state funding, such transition would come with a reasonable phase in period of up to several years to provide states with sufficient notice.

FTRI believes that the $851,774 deficit could be eliminated by using the surplus account money to offset the deficit. If the Commission approves Option 1, staff recommends that the $851,774 proposed FTRI budget deficit be eliminated by transferring funds from the relay surplus account to FTRI. Staff also recommends that the TRS surcharge be maintained at $0.11 per month for fiscal year 2015/2016, effective July 1, 2015. The Commission should order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to continue to bill the $0.11 surcharge for fiscal year 2015/2016, effective July 1, 2015.

<u>Option 2 – Approve FTRI budget as filed by increasing the monthly relay surcharge from $0.11 to $0.13 to offset the $851,774 deficit.</u>

FTRI also believes that the $851,774 deficit could be eliminated by increasing the monthly relay surcharge. Option 2 recommends that the $851,774 proposed FTRI budget deficit be eliminated by increasing the monthly relay surcharge from $0.11 to $0.13. The relay surcharge has been maintained at $0.11 per month since June 2007, and is collected only from local exchange company landline access lines. Staff has calculated that a $0.02 increase in the surcharge from $0.11 to $0.13 per month would be necessary to cover the $851,774 deficit in the FTRI proposed 2015/2016 budget.

If the Commission approves Option 2, staff recommends that the TRS surcharge be increased to $0.13 per month for fiscal year 2015/2016, effective July 1, 2015, and recommends that the Commission order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to bill the $0.13 surcharge for fiscal year 2015/2016, effective July 1, 2015.

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[9] NASRA ExParte Filing with FCC Dated March 13, 2015, Filed March 20, 2015. See <u>NASRA/TEDPA</u>.
[10] See Section 427.704(4)(a)3.(b), F.S.

<u>Option 3 – Reduce FTRI budget by $369,814, and use $481,960 of surplus funds to offset the remaining proposed deficit.</u>

The 2015/2016 proposed budget projects total operating revenues to be $8,064,442 and total expenses to be $8,916,216. Staff believes that FTRI should have estimated the continued decline in access lines more accurately based on historical and projected data and implemented appropriate expense reductions to address the decline. It has been thoroughly discussed before the Commission during previous FTRI budget proceedings that the anticipated future decline in access lines will have a continued negative impact on FTRI's budget, and that appropriate cost reductions by FTRI to mitigate the impact is necessary.

Of the $851,774 projected deficit included in FTRI's proposed budget, $481,960 is due to higher per minute session rates by Sprint Relay, Florida's new relay service provider. The remaining $369,814 deficit is attributable to FTRI expenses other than the relay service provider.

Staff understands FTRI's desire to transfer funds from the surplus account to cover relay provider costs for the 2015/2016 fiscal year. FTRI will incur higher relay provider costs based on the change in service provider in 2015 from AT&T to Sprint. Option 3 mitigates some of the concerns about using the surplus account to supplement FTRI's budget by only using the surplus account for a portion of FTRI's projected deficit.

Staff had a communication with FTRI concerning the possibility of reducing its proposed budget on April 2, 2015. Staff suggested to FTRI that if it believed its budget could be reduced in some manner, that it submit a revised budget. Staff did not receive a response from FTRI. Under Option 3, staff recommends that FTRI should reduce its budget by $369,814, and the $481,960 increase due to a change to a new relay service provider be transferred from the reserve account to FTRI.

If the Commission approves Option 3, staff recommends FTRI determine which individual accounts of Category II, Category III, Category IV, and Category V expenses should be adjusted to equal the Commission-approved budget decrease of $369,814. Staff recommends that the $481,960 increase due to a change to a new relay service provider be transferred from the reserve account to FTRI. Staff recommends that FTRI re-submit its budget within 30 days of the Commission vote. The revised budget should show adjustments to the individual accounts and staff should be granted administrative authority to approve the resubmitted budget as long as it adheres to the Commission's decision. However, if the revised budget indicates an allocation of funds inconsistent with the purpose and intent of TASA, staff will bring the revised budget back to the Commission for further consideration. Staff also recommends that the TRS surcharge be maintained at $0.11 per month for fiscal year 2015/2016, effective July 1, 2015. The Commission should order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to continue to bill the $0.11 surcharge for fiscal year 2015/2016, effective July 1, 2015.

<u>Option 4 – Reduce FTRI budget by $851,774 to offset the total proposed deficit.</u>

Option 4 recommends that FTRI reduce its budget to eliminate the entire $851,774 deficit. If the Commission approves Option 4, staff recommends FTRI reduce its proposed budget by $851,774 by determining which individual accounts of Category II, Category III, Category IV, and Category V expenses should be adjusted to equal the Commission-approved decrease. Staff recommends that FTRI re-submit its budget within 30 days of the Commission vote. The revised budget should show adjustments to the individual accounts reflecting an $851,774 decrease in its proposed 2015-2016 budget. Staff recommends that staff be granted administrative authority to approve the resubmitted budget as long as it adheres to the Commission's decision. However, if the revised budget indicates an allocation of funds inconsistent with the purpose and intent of TASA, staff will bring the revised budget back to the Commission for further consideration. Staff also recommends that the TRS surcharge be maintained at $0.11 per month for fiscal year 2015/2016, effective July 1, 2015. The Commission should order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to continue to bill the $0.11 surcharge for fiscal year 2015/2016, effective July 1, 2015.

Summary

A comparison of FTRI's 2014/2015 Estimated Revenue & Expenses, along with each of the Options presented above is shown below.

| | Estimated Revenue & Expenses 2014-2015 | Option 1 100% from surplus account 2015-2016 | Option 2 Increase surcharge $0.02 2015-2016 | Option 3 Reduce budget & use surplus account 2015-2016 | Option 4 Reduce budget by deficit total 2015-2016 |
|---|---|---|---|---|---|
| Operating Revenue: | | | | | |
| Surcharges | $ 7,877,499 | $7,562,400 | $8,937,381 | $ 7,562,400 | $ 7,562,400 |
| Interest Income | 43,654 | 33,293 | 33,293 | 33,293 | 33,293 |
| NDBEDP[11] | 217,398 | 468,749 | 468,749 | 468,749 | 468,749 |
| Total Operating Revenue | $ 8,138,551 | 8,064,442 | 9,439,423 | $ 8,064,442 | $ 8,064,442 |
| | | | | | |
| Operating Expenses: | | | | | |
| CATEGORY I - Relay Provider Services | $ 3,489,539 | $3,971,499 | $3,971,499 | $ 3,971,499 | $ 3,971,499 |
| CATEGORY II - Equipment and Repairs | 1,557,734 | 1,708,889 | 1,708,889 | TBD | TBD |
| CATEGORY III - Equipment Distribution And Training | 1,008,133 | 1,128,665 | 1,128,665 | TBD | TBD |
| CATEGORY IV - Outreach | 607,142 | 599,800 | 599,800 | TBD | TBD |
| CATEGORY V - General & Administrative | 1,006,961 | 1,038,614 | 1,038,614 | TBD | TBD |
| CATEGORY VI - NDBEDP | 217,398 | 468,749 | 468,749 | 468,749 | 468,749 |
| Total Expenses | $ 7,886,907 | $8,916,216 | $8,916,216 | $ 8,546,402 | $ 8,064,442 |
| | | | | | |
| Annual Surplus | 251,644 | (851,774) | 523,207 | (481,960) | 0 |
| Total Surplus | $15,722,595 | $14,870,821 | 16,245,802 | $15,240,635 | $15,722,595 |

[11] National Deaf Blind Equipment Distribution Program.

Conclusion

Option 1 would allow the $851,774 deficit to be eliminated by transferring funds from the relay surplus account to FTRI. Option 2 would offset the $851,774 proposed FTRI budget deficit by increasing the monthly relay surcharge from $0.11 to $0.13. Option 3 would offset the $851,774 proposed FTRI budget deficit by reducing the FTRI budget by $369,814, and using $481,960 of surplus funds to offset relay provider cost. Option 4 would offset the $851,774 proposed FTRI budget deficit by reducing the FTRI budget by $851,774. Options 1, 3 and 4 would maintain the relay surcharge at $0.11 per month for the 2015/2016 FTRI budget. Option 2 would increase the surcharge from $0.11 to $0.13.

It is true that landline access lines, which are charged a monthly relay surcharge, continue to decrease, but that does not mean that deaf relay services are being hindered. Loss of landline access lines is occurring on a national basis as more and more consumers transition to wireless and Voice over Internet Protocol (VoIP) services. Deaf and hard-of-hearing consumers are just a part of that technology transition. Staff believes that by statute, wireless and VoIP relay services are not within the Commission's jurisdiction.

Although the Commission in past years has allowed FTRI to use surplus fund money for its budget deficits, recent decisions have required FTRI to live within its budget. Staff believes the surplus account should be maintained at this time pending a final decision by the FCC of whether costs of intrastate Internet Protocol services will be shifted to the states. Staff also believes that increasing the relay surcharge at this time would place an additional burden on consumers and should not be done.

Therefore, staff recommends the Commission approve Option 4 in staff's analysis which reduces FTRI's proposed budget by $851,774. FTRI should determine which individual accounts of Category II, Category III, Category IV, and Category V expenses should be adjusted to equal the Commission-approved decrease. Staff recommends that FTRI re-submit its budget within 30 days of the Commission vote. The revised budget should show adjustments to the individual accounts reflecting the $851,774 decrease. Staff recommends that staff be granted administrative authority to approve the resubmitted budget as long as it adheres to the Commission's decision. However, if the revised budget indicates an allocation of funds inconsistent with the purpose and intent of TASA, staff will bring the revised budget back to the Commission for further consideration. Staff also recommends that the TRS surcharge be maintained at $0.11 per month for fiscal year 2015/2016, effective July 1, 2015. The Commission should order the incumbent local exchange companies, competitive local exchange companies, and shared tenant providers to continue to bill the $0.11 surcharge for fiscal year 2015/2016, effective July 1, 2015.

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

**Recommendation**: No. A Consummating Order should be issued, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. The docket should remain open to address all matters related to relay service throughout the life of the current Sprint contract. (Williams, Casey, Page)

**Staff Analysis**: A Consummating Order should be issued, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. The docket should remain open to address all matters related to relay service throughout the life of the current Sprint contract.

FTRI Florida Telecommunications Relay, Inc.

1820 E. Park Avenue, Suite 101
Tallahassee, FL 32301
Voice: 800-222-3448
TTY: 888-447-5620
Business: 888-292-1950
Fax: 850-656-8099
www.ftri.org

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OFFICE OF
TELECOMMUNICATIONS

March 9, 2015

Mr. Curtis Williams
Office of Telecommunications
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0866

**Re: FTRI FY 2015/2016 Budget**

Dear Mr. Williams:

I am pleased to forward a copy of the FY 2015/2016 budget that was recently approved by the Florida Telecommunications Relay, Inc. (FTRI) Board of Directors. This budget was reviewed by our Budget and Outreach Committees and adopted by the Board on March 6, 2015.

As approved, the budget is based on a surcharge of .11 which is the current level and projects revenues of $8,064,442 and expenses of $8,916,216 leaving a shortfall of $851,774 which can be eliminated by transferring funds from the surplus account, which is now over $15 million dollars, or by increasing the surcharge. In order to maintain the surcharge at the current level, FTRI proposes that funds from the surplus be used to eliminate the budget shortfall, as the Commission has directed with past budgets.

There are two primary reasons for the projected shortfall:

1. Declining access lines; and
2. Increase in cost of relay.

The issue of declining access lines has been addressed in prior budget submissions but is now becoming more of an impact on the budget. Since FY 2008, access lines have decreased from an average of 9,194,091 for that period to 6,284,851 for FY 2014; a loss of 2,909,240 access lines. On average, access lines have decreased by approximately 6% annually. Recently the annual decrease has been in the 4% range which was used for the budget projections but the fact remains that revenues for FY 2016 will be lower than FY 2015 by approximately $500,000 due to decreased access lines. At one time a one (1) cent change in the surcharge produced nearly one (1) million dollars; at present that change would produce approximately $600,000.

The second significant change is the projected cost for the relay service. The Commission entered into a new contract with Sprint to provide services for Florida Relay and the billable minute rates for both TRS and CapTel have increased. The increase is projected to be approximately $482,000 higher than current year end estimates.

Together the loss of revenue from declining access lines and the increase in Relay expense amounts to approximately one (1) million dollars.

FTRI has worked diligently to control the cost of the program. With the exception of those two items that have significant operational impacts, the proposed budget is consistent with the past budget. FTRI strives to ensure that we operate in a manner that meets the needs of the citizens of Florida. Since the inception of TASA, no eligible citizen of Florida has been denied equipment or related services because it was not available due to funds.

As always, I am available to answer any questions or provide any additional information you may need and please do not hesitate to contact me.

Sincerely,

James Forstall
Executive Director

CC: FTRI Board of Directors
Norman Horton, FTRI Legal Counsel

Florida Telecommunications Relay, Inc.
Fiscal Year 2015/2016 Budget @ .11 cents surcharge

| | | 2014/2015 APPROVED BUDGET | 2014/2015 ESTIMATED REV & EXPEND | 2015/2016 PROPOSED BUDGET | VARIANCE 2014/2015 2015/2016 |
|---|---|---|---|---|---|
| | OPERATING REVENUE | | | | |
| 1 | Surcharges | 8,013,558 | 7,877,499 | 7,562,400 | (451,158) |
| 2 | Interest Income | 55,787 | 43,654 | 33,293 | (22,494) |
| 3 | NDBEDP | 458,832 | 217,398 | 468,749 | 9,917 |
| | TOTAL OPERATING REV | 8,528,177 | 8,138,551 | 8,064,442 | (463,735) |
| | OTHER REVENUE/FUNDS | | | | |
| 4 | Surplus Account | 15,785,879 | 15,470,951 | 15,722,595 | (63,284) |
| | TOTAL REVENUE | 24,314,056 | 23,609,502 | 23,787,037 | (527,019) |
| | OPERATING EXPENSES | | | | |
| | CATEGORY I - RELAY SERVICES | | | | |
| 5 | DPR Provider | 3,464,351 | 3,489,539 | 3,971,499 | 507,148 |
| | SUBTOTAL-CATEGORY I | 3,464,351 | 3,489,539 | 3,971,499 | 507,148 |
| | CATEGORY II - EQUIPMENT & REPAIRS | | | | |
| 6 | TDD Equipment | 0 | 0 | 0 | 0 |
| 7 | Large Print TDD's | 0 | 0 | 0 | 0 |
| 8 | VCO/HCO - TDD | 0 | 0 | 720 | 720 |
| 9 | VCO Telephone | 0 | 0 | 0 | 0 |
| 10 | Dual Sensory Equipment | 10,000 | 0 | 5,000 | (5,000) |
| 11 | CapTel Phone Equipment | 38,700 | 25,112 | 0 | (38,700) |
| 12 | VCP Hearing Impaired | 1,240,342 | 1,247,003 | 1,459,148 | 218,806 |
| 13 | VCP Speech Impaired | 1,801 | 5,373 | 1,386 | (415) |
| 14 | TellTalk Speech Aid | 9,000 | 21,600 | 18,000 | 9,000 |
| 15 | Jupiter Speaker phone | 7,546 | 0 | 0 | (7,546) |
| 16 | In-Line Amplifier | 600 | 0 | 0 | (600) |
| 17 | ARS Signaling Equip | 9,752 | 6,241 | 6,501 | (3,251) |
| 18 | VRS Signaling Equip | 16,080 | 16,080 | 16,080 | 0 |
| 19 | Accessories & Supplies | 2,000 | 5,880 | 2,980 | 980 |
| 20 | Telecomm Equip Repair | 202,111 | 230,445 | 199,074 | (3,037) |
| | SUBTOTAL-CATEGORY II | 1,537,932 | 1,557,734 | 1,708,889 | 170,957 |
| | CATEGORY III - EQUIPMENT DISTRIBUTION & TRAINING | | | | |
| 21 | Freight-Telecomm Equip | 84,742 | 71,141 | 74,314 | (10,428) |
| 22 | Regional Distr Centers | 932,347 | 936,056 | 987,351 | 55,004 |
| 23 | Workshop Expense | 0 | 0 | 65,000 | 65,000 |
| 24 | Training Expense | 1,000 | 936 | 2,000 | 1,000 |
| | SUBTOTAL-CATEGORY III | 1,018,089 | 1,008,133 | 1,128,665 | 110,576 |

Florida Telecommunications Relay, Inc.
Fiscal Year 2015/2016 Budget @ .11 cents surcharge

| | 2014/2015 APPROVED BUDGET | 2014/2015 ESTIMATED REV & EXPEND | 2015/2016 PROPOSED BUDGET | VARIANCE 2014/2015 2015/2016 |
|---|---|---|---|---|
| CATEGORY IV - OUTREACH | | | | |
| 25 Outreach Expense | 607,200 | 607,142 | 599,800 | (7,400) |
| SUBTOTAL-CATEGORY IV | 607,200 | 607,142 | 599,800 | (7,400) |
| CATEGORY V - GENERAL & ADMINISTRATIVE | | | | |
| 26 Advertising | 4,905 | 1,310 | 2,641 | (2,264) |
| 27 Accounting/Auditing | 28,336 | 24,974 | 24,896 | (3,440) |
| 28 Legal | 72,000 | 72,000 | 72,000 | 0 |
| 29 Computer Consultation | 18,690 | 16,957 | 23,970 | 5,280 |
| 30 Dues & Subscriptions | 3,060 | 3,010 | 3,034 | (26) |
| 31 Office Furniture Purchase | 500 | 0 | 250 | (250) |
| 32 Office Equipment Purchase | 18,500 | 10,712 | 12,500 | (6,000) |
| 33 Office Equipment Lease | 1,935 | 1,797 | 1,886 | (49) |
| 34 Insurance-Hlth/Life/Dsblty | 209,578 | 168,537 | 176,487 | (33,091) |
| 35 Insurance-Other | 9,292 | 8,446 | 8,897 | (395) |
| 36 Office Expense | 17,014 | 15,958 | 16,524 | (490) |
| 37 Postage | 12,527 | 9,844 | 9,917 | (2,610) |
| 38 Printing | 1,860 | 1,525 | 1,537 | (323) |
| 39 Rent | 91,184 | 91,653 | 91,280 | 96 |
| 40 Utilities | 7,077 | 5,762 | 5,808 | (1,269) |
| 41 Retirement | 66,925 | 60,137 | 60,036 | (6,889) |
| 42 Employee Compensation | 498,750 | 432,073 | 434,558 | (64,192) |
| 43 Temporary Employment | 8,000 | 1,600 | 8,000 | 0 |
| 44 Taxes - Payroll | 38,155 | 33,056 | 33,244 | (4,911) |
| 45 Taxes - Unemplmt Comp | 901 | 2,033 | 2,032 | 1,131 |
| 46 Taxes - Licenses | 65 | 65 | 65 | 0 |
| 47 Telephone | 19,138 | 17,016 | 18,670 | (468) |
| 48 Travel & Business | 10,408 | 16,167 | 16,296 | 5,888 |
| 49 Equipment Maint. | 1,349 | 1,342 | 1,353 | 4 |
| 50 Employee Training/Dev | 7,000 | 5,300 | 7,000 | 0 |
| 51 Meeting Expense | 3,149 | 5,687 | 5,733 | 2,584 |
| 52 Miscellaneous Expense | 0 | 0 | 0 | 0 |
| SUBTOTAL-CATEGORY V | 1,150,298 | 1,006,961 | 1,038,614 | (111,684) |
| CATEGORY VI - NDBEDP | | | | |
| 53 NDBEDP - Expense | 458,832 | 217,398 | 468,749 | 9,917 |
| SUBTOTAL-CATEGORY VI | 458,832 | 217,398 | 468,749 | 9,917 |
| TOTAL EXPENSES | 8,236,702 | 7,886,907 | 8,916,216 | 679,514 |
| REVENUE LESS EXPENSES | 16,077,354 | 15,722,595 | 14,870,821 | (1,206,533) |

# Item 2

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Office of Telecommunications (Williams)
Office of the General Counsel (Ames)

**RE:** Docket No. 150021-TC – Application for certificate to provide pay telephone service by Florida Payphone Operations, Inc.

**AGENDA:** 05/5/15 – Regular Agenda – Proposed Agency Action – Except Issue 1 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

In December 2014, Office of Telecommunications staff became aware that Florida Payphone Operations, Inc. (Florida Payphone or company) was providing pay telephone service in Florida without a certificate from the Florida Public Service Commission (Commission). Staff investigated the company to determine the extent of the statutory and rule violations, and notified the company that it needed to have a certificate to operate a pay telephone company in Florida. Staff determined that the company began operations in December 2013, and currently has 450 pay telephones in operation in Florida.

On January 6, 2015, Florida Payphone filed an application for certificate to provide pay telephone service based on staff bringing the violation to its attention. The company also acknowledged in response to a staff data request, that it was unaware that certification with the Commission was necessary.

Pay telephone service providers are required to comply with all applicable provisions of Chapter 364, Florida Statutes (F.S.), and Chapters 25-4 and 25-24, Florida Administrative Code (F.A.C.). This recommendation addresses whether the Commission should accept Florida Payphone's settlement offer of $1,500 for operating without a certificate and whether the Commission should approve the company's application for certification.

The Commission has jurisdiction pursuant to Sections 364.285 and 364.3375, F.S., and Rule 25-24.511, F.A.C.

## Discussion of Issues

**Issue 1**: Should the Commission accept the settlement offer of $1,500 submitted by Florida Payphone Operations, Inc. for operating without a certificate in violation of Section 364.3375(1)(a), F.S.?

**Recommendation**: Yes. Staff recommends that the Commission accept the offer of $1,500 submitted by Florida Payphone Operations, Inc. for violation of Section 364.3375(1)(a), F.S. The $1,500 settlement should be remitted to the State of Florida General Revenue Fund pursuant to Section 364.285, F.S. (Williams, Ames)

**Staff Analysis**: As discussed in the Case Background, in December 2014, the Office of Telecommunications staff became aware that Florida Payphone was providing pay telephone service in Florida without a certificate from the Commission. Pursuant to Section 364.3375(1)(a), F.S. "A person may not provide pay telephone service without first obtaining from the Commission a certificate of authority." On January 6, 2015, Florida Payphone filed an application for certificate to provide pay telephone service. In addition, the company acknowledged that it was unaware that certification with the Commission was necessary.

Commission staff is not aware of a previous occurrence of a pay telephone company operating without a certificate. However, staff believes the offer amount is appropriate in lieu of a show cause based on the specific issues and circumstances in this case.

In arriving at its recommendation, staff considered Florida Payphone's diligence and timely responses to staff's inquiries to address its violation. Florida Payphone has indicated that it is now aware of the statutes and rules governing pay telephone service providers in Florida. In addition, staff took into consideration that the number of pay telephones in Florida continues to decline and the company's 450 pay telephones represent approximately five percent of pay telephones currently operating in Florida by certificated pay telephone providers. Further, the company's pay telephones are operated primarily in low-income communities where pay telephone service is vital.

Therefore, staff recommends that the Commission accept the offer of $1,500 submitted by Florida Payphone Operations, Inc. for violation of Section 364.3375(1)(a), F.S. The $1,500 settlement should be remitted to the State of Florida General Revenue Fund pursuant to Section 364.285, F.S.

**Issue 2**: Should the Commission grant Florida Payphone Operations, Inc. a certificate to provide pay telephone service?

**Recommendation**: Yes. Staff recommends the Commission grant Florida Payphone Operations, Inc. a certificate to provide pay telephone service. (Williams, Ames)

**Staff Analysis**: In accordance with Section 364.3375(1)(a), F.S., a person may not provide pay telephone service without first obtaining from the Commission a certificate of authority to provide such service. A certificate authorizes the pay telephone service provider to provide services statewide and to provide access to both local and intrastate interexchange pay telephone service.

Pay telephone providers are subject to Chapter 25-24, F.A.C., Rules Governing Pay Telephone Service Provided by Other Than Local Exchange Telephone Companies. Pay telephone providers are also required to comply with all applicable provisions of Chapter 364, F.S., and Chapter 25-4, F.A.C. In addition, under Section 364.336, F.S., certificate holders must pay a minimum annual Regulatory Assessment Fee (RAF) if the certificate was active during any portion of the calendar year. A RAF Return Notice will be mailed each December to Florida Payphone for payment by January 30. Neither the cancellation of the certificate nor the failure to receive a RAF Return notice shall relieve Florida Payphone from its obligation to pay RAFs.

Staff believes it is in the public interest to issue a certificate to Florida Payphone Operations, Inc. Staff has taken into consideration many of the same considerations from Issue 1. Namely, the number of pay telephones in Florida continues to decline and the company's 450 pay telephones represent approximately five percent of pay telephones currently operating in Florida. Further, the company's pay telephones are operated primarily in low-income communities where pay telephone service is vital. Florida Payphone appears to have the financial capability to operate and has committed to abide by the statutes and rules for pay telephone providers in Florida. The company has submitted a settlement offer payment of $1,500. Therefore, staff recommends that the Commission grant Florida Payphone Operations, Inc. a certificate to provide pay telephone service.

**Issue 3**: Should this docket be closed?

**Recommendation**: Yes. If no person whose substantial interest are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Williams, Ames)

s 4-23-15

**Staff Analysis**: If no person whose substantial interest are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

# Item 3

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Graves)
Division of Accounting and Finance (Barrett, Lester, Trueblood)
Division of Economics (McNulty, Wu)
Office of the General Counsel (Ames)
Office of Industry Development and Market Analysis (B. Crawford)

**RE:** Docket No. 150049-EI – Petition for approval of energy purchase agreement between Gulf Power Company and Morgan Stanley Capital Group Incorporated.

**AGENDA:** 05/05/15 – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** Based on a termination provision contained in the Agreement, a final Commission decision must be rendered by August 20, 2015.

**SPECIAL INSTRUCTIONS:** None

## Case Background

On February 11, 2015, Gulf Power Company (Gulf or Company) filed a petition requesting approval for cost recovery of a negotiated Energy Purchase Agreement with Morgan Stanley Capital Group Inc.[1] (Morgan Stanley). The Energy Purchase Agreement (Agreement) obligates Morgan Stanley to deliver to Gulf a fixed number of megawatt hours (MWh) in each hour of each month of each year throughout the 20 year term of the Agreement.

[1] Morgan Stanley Capital Group Inc. is a wholly-owned subsidiary of Morgan Stanley.

Morgan Stanley's energy delivery commitment is shaped to match the projected hourly and monthly output of a 178 megawatt portion of a wind electric generation facility known as the Kingfisher Wind Farm that is to be constructed in Oklahoma.[2] On an annual basis, Morgan Stanley's energy delivery commitment totals 674,437 MWh. On January 21, 2015, Morgan Stanley entered into an agreement with the owner of the Kingfisher Wind Farm for Morgan Stanley to financially hedge the energy output of the Kingfisher Wind Farm.

Under the Agreement, Gulf is only required to pay for energy which is received from Morgan Stanley on the Southern Companies Transmission System. Energy delivered under the Agreement to the Southern Companies Transmission System will be assigned to Gulf at the prices designated in the Agreement. Although the energy received on the Southern Companies Transmission System may not come from renewable generation, Gulf will be entitled to receive and retain all environmental attributes, including renewable energy credits (RECs), associated with the corresponding output of the Kingfisher Wind Farm.

The Agreement contains a termination provision for failure to obtain Commission approval of the Agreement through a final non-appealable order within 240 days of filing. Based on the termination provision contained in the Agreement, a Commission decision must be rendered by August 20, 2015. In its petition, Gulf indicated that timely Commission approval is critical, because the Agreement requires that the Kingfisher Wind Farm be in-service on or before December 31, 2016, in order to qualify for federal business energy investment tax credits.

On February 19, 2015, the Office of Public Counsel filed a petition to intervene in the docket. On February 20, 2015, the Commission issued an order acknowledging the Office of Public Counsel's intervention.[3]

The Commission has jurisdiction over this matter pursuant to Sections 366.051, 366.91, and 366.92, Florida Statutes (F.S.).

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[2] The Kingfisher Wind Farm is expected to have a full nameplate capacity of approximately 300 MW.

[3] Order No. PSC-15-0109-PCO-EI issued: February 20, 2015, in Docket No. 150049-EI, In re: Petition for approval of energy purchase agreement between Gulf Power Corporation [Company] and Morgan Stanley Capital Group Incorporated.

**Issue 1**: Should the Commission approve Gulf Power Company's petition requesting recovery of costs incurred under a negotiated Energy Purchase Agreement with Morgan Stanley Capital Group Inc.?

**Recommendation**: Yes. Gulf has reasonably demonstrated that the Agreement will likely produce savings between $11 million and $48 million and will encourage the development of renewable energy. Therefore, staff recommends that the Commission approve Gulf's petition. (Graves, McNulty, Trueblood, Wu)

**Staff Analysis**: Gulf's petition requests approval for the recovery, through the Fuel and Purchased Power Cost Recovery Clause (fuel clause), of costs associated with the Agreement between the Company and Morgan Stanley. Staff believes that Rule 25-17.0825(6), Florida Administrative Code (F.A.C.), provides a rational evaluation tool for the Agreement between Gulf and Morgan Stanley. Rule 25-17.0825(6), F.A.C., requires consideration of cost-effectiveness and any adverse impacts to electric service that may be caused by a purchased power agreement.

*Economic Evaluation of Payments*

The Agreement was analyzed, negotiated, and executed under Gulf's 2014 energy budget which included the Company's 2014 fuel price forecasts. Based on the Company's 2014 energy budget, the Agreement is projected to result in a savings of approximately $48 million (in 2015 dollars) with savings occurring in each year of the 20-year term. Following the negotiation and execution of the Agreement, Gulf's 2015 energy budget was released and the Company performed a second economic evaluation based upon the 2015 forecasts. Based on Gulf's second economic evaluation, the Agreement is projected to result in a savings of approximately $11 million with savings again occurring in each year of the 20-year term.

Gulf indicated that the primary driver of the differences between the 2014 and 2015 evaluations is a lower fuel cost projection for the 2015 energy budget. Staff reviewed both of the fuel price forecasts, as well as the process and methodology by which the forecasts were developed. In response to a staff data request, the Company asserted that the methodology it employed in developing the fuel price forecasts used in this docket is the same as that used by the Company to develop its 2014 Ten-Year Site Plan. Staff believes that Gulf's 2014 and 2015 fuel price forecasts are reasonable for evaluating the Agreement.

Gulf's payments to Morgan Stanley, which are fixed for each year of the Agreement, will not change as Gulf's avoided energy costs change. This allocates the risk of fuel price fluctuations, which impact avoided energy costs, to Gulf's ratepayers. Although there is a risk that fuel costs may be lower than those forecasted by Gulf, which would reduce the benefits of the Agreement, other variables not considered in Gulf's economic evaluation could increase the benefits. Specifically, staff believes an economic evaluation that considered the potential benefits associated with RECs would increase the benefits of the Agreement.

Per the Agreement, RECs will be sourced directly from the Kingfisher Wind Farm. If, however, the energy output falls below Morgan Stanley's energy delivery commitment, RECs will be sourced from other comparable wind facilities. Gulf anticipates receiving more than 13 million RECs (one REC per delivered MWh) over the term of the Agreement. Gulf stated that RECs are presently selling on the voluntary market for approximately $0.85 per REC. In its petition, Gulf stated that proceeds from the sale of RECs would be returned to Gulf's ratepayers in the form of credits to the fuel clause. Should Gulf decide to sell its RECs, the Company's proposed treatment of RECs associated with the Agreement is appropriate because the proceeds from any sale of the RECs will benefit ratepayers.

The RECs also have the potential to assist the Company in complying with Renewable Portfolio Standards or similar compliance obligations should they arise in the future. Staff recommends that Gulf's proposed treatment of RECs associated with the Agreement is appropriate, because the proceeds from any sale of the RECs will benefit ratepayers in the form of credits to the fuel clause.

Based on the information provided, staff concludes that Gulf's economic evaluations reasonably demonstrate that the Agreement is cost-effective. While there is risk associated with the Agreement and potential fuel price fluctuations, staff believes potential benefits from renewable attributes increases the likelihood that the Agreement will result in savings to Gulf's ratepayers over the term of the Agreement.

***Electric Service Adequacy and Reliability***

The Agreement allows Gulf to curtail energy deliveries under various circumstances including emergency conditions. Staff believes that this provision adequately ensures that the reliability of the Southern Companies Transmission System as well as Gulf's electric service will not be adversly impacted by the energy delivered under the Agreement.

***Additional Considerations***

The Agreement contains provisions that encourage the construction and performance of the Kingfisher Wind Farm. The Agreement provides for daily liquidated damages for construction delays and certain termination rights in the event that the Kingfisher Wind Farm does not reach commercial operation as required by the Agreement. Commercial operation is anticipated to be achieved on or before December 31, 2015, but may occur no later than December 31, 2016, under the Agreement.

The Agreement also provides that a failure to deliver hourly energy, in amounts specified in the Agreement, will result in Morgan Stanley paying cover costs to Gulf. Per the Agreement, if Morgan Stanley fails to pay such cover costs, or the failure to deliver energy exceeds certain limits, Gulf has the right to declare the contract in default and Morgan Stanley must pay a termination payment. Staff believes this requirement, as well as the commercial operation requirement discussed above, is favorable to Gulf and its ratepayers.

***Conclusion***

Staff concludes that Gulf has reasonably demonstrated that the Agreement will likely produce savings between $11 million and $48 million and will encourage the development of renewable energy. Therefore, staff recommends that the Commission approve Gulf's petition.

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

**Recommendation**: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Ames)

**Staff Analysis**: This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.

# Item 4

**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-

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**DATE:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Graves, Hill, King)
Division of Accounting and Finance (T. Brown, D. Buys, Cicchetti, Fletcher, Frank, Monroe, Norris, Vogel)
Division of Economics (Thompson)
Office of the General Counsel (Young)

**RE:** Docket No. 140060-WS – Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

**AGENDA:** 05/05/15 – Regular Agenda – Proposed Agency Action, except for Issues 20 and 21 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Patronis

**CRITICAL DATES:** 5-Month Effective Date Waived Through 05/05/15

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Sanlando Utilities Corporation (Sanlando or Utility) is a Class A utility providing water and wastewater service to approximately 10,172 water and 8,428 wastewater customers in Seminole County. Water and wastewater rates were last established for this Utility in its 2011 rate case.[1]

On July 1, 2014, Sanlando filed its application for the rate increase at issue. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2013.

The Utility's application did not meet the minimum filing requirements (MFRs). On July 29, 2014, staff sent Sanlando a letter indicating deficiencies in the filing of its MFRs. On September 29, 2014, the Utility filed a response to staff's letter correcting its deficiencies, and thus the official filing date was established as September 29, 2014.

Sanlando requested an interim revenue increase of $324,552 (7.8 percent) for water and no revenue increase for wastewater. Sanlando received a Commission approved interim increase of $102,527 (2.46) percent for water.

The Utility requested final revenue increases of $654,796 (15.7 percent) for water and $537,442 (13.7 percent) for wastewater. This recommendation addresses Sanlando's requested final rates. The five month effective date has been waived by the Utility through May 5, 2015. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

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[1] Order No. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

## Discussion of Issues

## QUALITY OF SERVICE

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

**Recommendation**: Yes. Staff recommends that the quality of service provided by Sanlando, be considered satisfactory. The Utility is currently meeting all applicable DEP water and wastewater quality standards, and appears to be responsive to its customers and to the DEP. (Hill)

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

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

Sanlando's service area is located in Seminole County, Florida. The raw water source is ground water, which is obtained from three water treatment plants (WTPs). The Des Pinar WTP has four wells, the Knollwood WTP has two wells, and the Wekiva WTP has five wells in the service area. The water at each well is treated via aeration, addition of liquid chlorine for disinfection, and addition of orthophosphate for corrosion control. Wastewater service is provided via influent screening, aeration, clarification, chemical feed, disinfection by chlorination, tertiary filtration, dechlorination, and aerobic digestion of residuals.

Staff reviewed the most recent chemical analyses for each WTP. The analyses dated March 7, 2013, for nitrites and nitrates, and April 22, 2014, for all other contaminants, showed all contaminants are below the Maximum Contaminant Level. Staff also reviewed the Utility's DEP Sanitary Survey Report dated December 27, 2013. The report noted a deficiency with maintenance of a check valve and an air relief valve, and also mentions that these deficiencies had been corrected by January 9, 2014.

Staff reviewed the Utility's DEP Wastewater Compliance Report for the Wekiva Wastewater Treatment plant (WWTP), dated July 9, 2014. This report noted an excess of total phosphorus in wastewater effluent for several months during the test year, and also reports that this noncompliance has been corrected once the public access reuse interconnect was completed in October 2013.

Staff also reviewed a DEP Consent Order dated April 7, 2015, addressing events occurring on November 23 and November 29, 2014. On November 23, 2014, a forcemain break caused an estimated 750,000 gallons of untreated wastewater to discharge to Sweetwater Creek.

On November 29, 2014, a berm breach caused an estimated 1.0 million gallons of partially treated effluent to discharge into Sweetwater Creek and the surrounding wetlands. Additional discharge and daylighting (groundwater emerging above ground) from rapid infiltration basins (RIBs) was observed on December 2, 2014. DEP has ordered several corrective actions, and staff has confirmed with DEP that Sanlando has been responsive to this order.

Staff received correspondence from residents of neighboring West Lake Brantley, which is not in Sanlando's service area, who were directly impacted by these events. Specifically, residents and news sources reported that untreated wastewater had been discharged onto residents' properties, causing damage. Staff contacted DEP to obtain results of an inspection performed December 2, 2014, to investigate the claims made in the correspondence. DEP staff has reported that untreated wastewater did not discharge into the West Lake Brantley community, and that any sewage found in that area was likely due to septic systems affected by heavy rainfall. DEP reported that the daylighting of water from a RIB likely affected the West Lake Brantley residents, but noted that this was treated wastewater, suitable for discharge into RIBs. The Consent Order requires the Utility to re-rate the RIBs to prevent adverse effects on adjacent properties.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and there were zero complaints recorded during the test year. DEP reported that it had no complaints for Sanlando on file for the test year or prior four years. The Utility recorded 191 complaints during the test year, down from an average of 260 complaints in each of the four years prior to the test year. Approximately 30 percent of the test year complaints were related to leaks which were on the customer side of the meter and therefore not the responsibility of the Utility. The remaining concerns were varied and did not indicate a systemic problem with customer service. All complaints appeared to have been timely resolved. The Utility also resolved line blockages and sewer backups in a timely manner.

Staff held a customer meeting in Altamonte Springs, Florida on February 10, 2015. One customer of the Utility and one resident of West Lake Brantley, a neighborhood adjacent to the service territory, attended and provided comments. The customer's comment was related to nitrogen discharge of the wastewater treatment plant. The customer was concerned that DEP may require homeowners to replace septic systems to lower nitrogen levels in the Wekiva River. Sanlando is selling reuse water to the city of Apopka in order to address this concern and reduce total nitrogen and nitrate discharge. The comment from the resident of neighboring West Lake Brantley was related to the unusual discharge events at the Wekiva WWTP that occurred on November 23 and November 29, 2014. This comment claims that these events led to flooding of the West Lake Brantley neighborhood with untreated sewage which caused property damage and pollution to the Wekiva River. Staff has investigated this concern as discussed above.

The Commission received three comments regarding this rate case. One of these comments concerned the November 23 and 29, 2014, events described above. Two of these comments objected to the rate increase based on the frequency of rate increases. One of the comments also indicated that Sanlando had not satisfied a water pressure complaint. The Utility has responded to this comment with results from a pressure recorder indicate that system pressure of above 50 pounds per square inch was maintained for the week of March 12–March 19, 2015, except for one incident when the plant emergency generator was engaged for maintenance purposes. The Utility also responded with potential causes for the problem on the customer's side, and encouraged the customer to contact them if the problems persist. Based on the above, it appears the Utility has attempted to address its customer's concerns.

Conclusion

Staff recommends that the quality of service provided by Sanlando, be considered satisfactory. The Utility is currently meeting all applicable DEP water and wastewater quality standards, and appears to be responsive to its customers and to the DEP.

**RATE BASE**

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

**Recommendation**: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base and net operating income as set forth in staff's analysis below. (Monroe)

**Staff Analysis**: In its response to the staff audit reports of the Utility and affiliate transactions, Sanlando agreed to the audit adjustments as set forth in the tables below.

Table 2-1

| Description of Audit Adjustments | |
|---|---|
| Sanlando Audit Adjustments | Description of Adjustments |
| Audit Finding No. 3 | Reflect Des Pinar Wastewater Plant Retirement |
| Audit Finding No. 4 | Reflect Water Plant in Service General Retirements |
| Audit Finding No. 5 | Reflect Water Plant in Service Meter Retirements |
| Audit Finding No. 6 | Reflect Water Plant in Service Meter Additions |
| Audit Finding No. 7 | Reflect Wastewater Plant in Service General Retirements |
| Audit Finding No. 8 | Reflect Wastewater Plant in Service Pumping Equipment Retirement |
| Audit Finding No. 9 | Reflect Wastewater Plant in Service T&D Equipment Retirement |
| Audit Finding No. 10 | Reflect Wastewater Plant in Service T&D Transfers |
| Audit Finding No. 11 | Wastewater Plant in Service Reimbursement |
| Audit Finding No. 12 | Wastewater Plant in Service-Capital Project Addition |
| Audit Finding No. 13 | Correction to Erroneous CIAC Retirements |
| Audit Finding No. 14 | Remove Customer Deposits from Working Capital |
| Audit Finding No. 15 | Reduce Sludge Hauling Expense-Change in Contract Rate and New Sludge Belt |
| Audit Finding No. 16 | Reduce Wastewater Purchased Power and Increase Water Purchased Power |
| Sanlando Affiliate Audit Adjustments | Description of Adjustments |
| Audit Finding No. 1 | Reflect Reduction in Transportation and Vehicle Costs |
| Audit Finding No. 4 | Reflect Correct Allocated Plant, Accumulated Depreciation, Depreciation Expense |
| Audit Finding No. 5 | Reflect Correct Allocations to Water and Wastewater Plant |
| Audit Finding No. 7 | Reflect Correct Allocated Operations & Maintenance (O&M) Expense |
| Audit Finding No. 8 | Reflect Correct Allocated Payroll, Benefits, and Taxes |

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Tables 2-2 through 2-7 be made to rate base and net operating income.

Table 2-2

Adjustments to Water Rate Base

| Water | | | | | |
|---|---|---|---|---|---|
| Sanlando Audit Adjustments | Plant | Accum. Depreciation | CIAC | Amort.of CIAC | Working Capital |
| Finding No. 3 | $733 | | | | |
| Finding No. 4 | ($8,549) | $9,058 | | | |
| Finding No. 5 | ($152,645) | $166,861 | | | |
| Finding No. 6 | ($51,446) | ($54,465) | | | |
| Finding No. 12 | | | $605,943 | ($4,741) | |
| Finding No. 13 | | | $708,364 | ($798,118) | |
| Finding No. 14 | | | | | $27,695 |
| Adjustment Totals | ($211,907) | $121,454 | $1,314,307 | ($802,859) | $27,695 |

Table 2-3

Adjustments to Water Net Operating Income

| Water | | | |
|---|---|---|---|
| Sanlando Audit Adjustments | Depreciation Expense | O&M Expense | Amortization Expense |
| Finding No. 3 | $978 | | |
| Finding No. 4 | ($509) | | |
| Finding No. 5 | ($7,804) | | |
| Finding No. 6 | ($878) | | |
| Finding No. 12 | | | $3,074 |
| Finding No. 13 | | | ($164,256) |
| Finding No. 16 | | $5,020 | |
| Adjustment Totals | ($8,213) | $5,020 | ($161,182) |

Table 2-4

| Adjustments to Wastewater Rate Base<br>Wastewater | | | | | |
|---|---|---|---|---|---|
| Sanlando Audit Adjustments | Plant | Accum. Depreciation | CIAC | Amort.of CIAC | Working Capital |
| Finding No. 3 | ($18,644) | | | | |
| Finding No. 7 | ($11,101) | $10,058 | | | |
| Finding No. 8 | ($49,415) | $55,496 | | | |
| Finding No. 9 | ($11,145) | $11,765 | | | |
| Finding No. 10 | ($9,480) | $3,950 | | | |
| Finding No. 11 | ($2,773) | $62 | | | |
| Finding No. 12 | ($8,606) | $67 | ($315,938) | $1,180 | |
| Finding No. 13 | | | $384,502 | ($528,709) | |
| Finding No. 14 | | | | | $21,854 |
| Adjustment Totals | ($111,164) | $81,398 | $68,564 | ($527,529) | $21,854 |

Table 2-5

| Adjustments to Water Net Operating Income<br>Wastewater | | | |
|---|---|---|---|
| Sanlando Audit Adjustments | Depreciation Expense | O&M Expense | Amortization Expense |
| Finding No. 3 | ($16,194) | | |
| Finding No. 7 | ($851) | | |
| Finding No. 8 | ($2,878) | | |
| Finding No. 9 | ($619) | | |
| Finding No. 10 | ($527) | | |
| Finding No. 11 | ($62) | | |
| Finding No. 12 | ($67) | | ($2,845) |
| Finding No. 13 | | | ($136,400) |
| Finding No. 15 | | ($23,197) | |
| Finding No. 16 | | ($7,220) | |
| Adjustment Totals | ($21,198) | ($30,417) | ($139,245) |

Table 2-6

| Adjustments to Water Rate Base and Net Operating Income<br>Water | | | | | |
|---|---|---|---|---|---|
| Sanlando Affiliate Audit Adjustments | Plant | Accum. Depreciation | O&M Expense | Depreciation Expense | TOTI |
| Finding No. 1 | ($224,456) | $242,299 | ($4,272) | ($10,921) | |
| Finding No. 4 | ($83,600) | $127,614 | | $7,393 | |
| Finding No. 5 | ($61,688) | $17,570 | | | |
| Finding No. 7 | | | $10,107 | | |
| Finding No. 8 | | | ($64,343) | | ($7,698) |
| Adjustment Totals | ($369,744) | $387,483 | ($58,508) | ($3,528) | ($7,698) |

Table 2-7

| Adjustments to Wastewater Rate Base and Net Operating Income<br>Wastewater | | | | | |
|---|---|---|---|---|---|
| Sanlando Affiliate Audit Adjustments | Plant | Accum. Depreciation | O&M Expense | Depreciation Expense | TOTI |
| Finding No. 1 | ($177,147) | $191,230 | ($3,371) | ($8,620) | |
| Finding No. 4 | ($65,982) | $100,715 | | $5,384 | |
| Finding No. 5 | $61,688 | ($17,570) | | | |
| Finding No. 7 | | | $7,949 | | |
| Finding No. 8 | | | $11,442 | | (6,017) |
| Adjustment Totals | ($181,441) | $274,375 | $16,020 | ($3,236) | ($6,017) |

**Issue 3**: Should any adjustment be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation**: Yes. Adjustments should be made to reduce accumulated depreciation by $26,326 for water and $20,777 for wastewater and reduce depreciation expense by $26,326 for water and $20,777 for wastewater. In addition, consistent with the Commission's previous decisions, Sanlando should be authorized to create a regulatory asset of $5,925. The annual amortization of the regulatory asset is $1,481 per year, or $832 for water and $649 for wastewater. (T. Brown)

**Staff Analysis**: The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of Utilities, Inc., (UI) and its subsidiaries. UI's Phoenix Project became operational in December 2008. In the Miles Grant Water and Sewer Co. case, the Commission determined that recovery of Phoenix Project costs would be allocated on the basis of Equivalent Residential Connections (ERCs).[2] Beginning with the UI of Pennbrooke case, and in subsequent dockets, the Commission removed the ERCs of systems divested by UI from total company ERCs when calculating the net investment in the Phoenix Project.[3]

In the instant docket, UI allocated 7.90 percent of its costs to Sanlando based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are $23,176,439, of which the Utility calculated its allocated share to be $1,830,939.[4]

UI Generic Docket

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, UI, with the consent and support of OPC, petitioned the Commission to open a generic docket to address the protested issue relating to the Utility's Phoenix Project.[5] These protested issues were subsequently addressed by Order No. PSC-14-0521-FOF-WS issued in Docket No. 120161-WS (UI Generic Docket).[6] In the UI Generic Docket, the Commission clarified its treatment of divestitures going forward; so that any adjustments related to UI divested systems were net of any UI acquisitions. The Commission also reiterated its position that the appropriate depreciable life for the Phoenix Project is ten years and that remaining depreciable life should be used in the calculation of depreciation expense.[7]

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[2] Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.
[3] Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.
[4] Audit Control No. 14-197-4-1, Work Paper No. 22-4.6.1, in Docket No. 140060-WS.
[5] Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.
[6] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[7] Order No. PSC-14-0521-FOF-WS, p.11.

At the time the Phoenix Project was placed in service, UI had 296,950 total ERCs. The Utility filed an update of closed and pending acquisitions on February 13, 2015. As of that date, there were 297,085 ERCs.[8] According to the Utility, one acquisition closed on January 13, 2015, and several additional pending acquisitions are under contract pending approval by the Louisiana and New York regulatory authorities. Given these acquisitions, an adjustment to the investment is no longer necessary given that UI will exceed the level of total ERCs existing when the Phoenix Project was placed in service. As such, the adjustment identified in Affiliate Audit Finding No. 2 is no longer necessary.

Accordingly, staff believes the adjustment to accumulated depreciation and depreciation expense identified in Affiliate Audit Finding No. 3 should be revised to reflect the full investment of the Phoenix Project. Audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Consistent with the Commission's decision in the UI Generic Docket, adjustments should be made to decrease water and wastewater accumulated depreciation by $26,326 and $20,777, respectively. Water and wastewater depreciation expense should also be decreased by $26,326 and $20,777, respectively.

Creation of a Regulatory Asset or Liability

In addition to establishing the UI Generic Docket in Docket No. 110153-SU, the parties agreed, and the Commission subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc., of Eagle Ridge resulting from a final Commission decision in the UI Generic Docket, the Utility should be authorized to create a regulatory asset or liability, and accrue interest on the regulatory assetor liability, at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding.[9,10,11] The Commission also ordered that the regulatory asset or liability be amortized over four years. The Commission ordered this same treatment for other UI companies, including Sanlando.[12]

[8] Document No. 00959-15, filed February 13, 2015.
[9] Order No. PSC-12-0346-FOF-SU; pp. 2, 9.
[10] An example of a regulatory liability would be the deferral of past overearnings to future periods.
[11] A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. The Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.
[12] Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

As stated previously, the Commission recently clarified its divestiture adjustment methodology when addressing Phoenix Project costs. The Commission found that adjustments for divestitures, net of any acquisitions, was a more appropriate methodology going forward for UI systems. As a result of the clarification, staff recalculated the computer maintenance expense, depreciation expense, and incremental return, as well as the revenue impact for each year since the implementation of rates in Sanlando's last rate case (2013 through 2015). Because the current adjustment is less than the adjustment calculated by staff in the last rate case, a regulatory asset is required pursuant to the UI Generic Docket. Including interest, the revenue impact associated with the foregone return, computer maintenance expense, and depreciation expense is $5,925. The annual amortization of the regulatory asset is $1,481 per year, or $832 for water and $649 for wastewater.

Conclusion

Staff recommends that accumulated depreciation be reduced by $26,326 for water and $20,777 for wastewater. Depreciation expense should be reduced by $26,326 for water and $20,777 for wastewater. In addition, consistent with the Commission's previous decisions, Sanlando should be authorized to create a regulatory asset of $5,925. The annual amortization of the regulatory asset is $1,481 per year, or $832 for water and $649 for wastewater. These amounts are also reflected in Schedule Nos. 1-C and 3-C.

**Issue 4**: Should any further adjustments be made to test year rate base?

**Recommendation**: Yes. Plant should be reduced by $112,706 for water and $27,535 for wastewater. Accumulated depreciation should be increased by $126,680 for water and $115,219 for wastewater. CIAC should be increased by $15,383 for water. Accumulated amortization of CIAC should be decreased by $17,836 for water and $24,862 for wastewater. Additionally, depreciation expense should be increased by $15,494 for water and $212,775 for wastewater. Amortization of CIAC should be increased for water and wastewater by $256,503 and $159,012, respectively. (Norris)

**Staff Analysis**: Staff has reviewed the test year rate base components along with other support documentation. As such, staff believes further adjustments are necessary to the Utility's rate base, as discussed below.

Sanlando Audit Finding Nos. 1 and 2

The staff audit report for Sanlando was filed on October 23, 2014. The Utility's response to the audit was received on January 30, 2015. In its response, the Utility contested Audit Finding Nos. 1, 2, 17, and 18. Only Finding Nos. 1 and 2 will be discussed in this issue, while the other audit findings are addressed elsewhere in this recommendation.

In regard to Audit Finding No. 1, audit staff identified Commission Ordered Adjustments (COAs) from Order No. PSC-13-0085-PAA-WS that were incorrectly booked to the Utility's general ledger on May 31, 2013. In addition to erroneous plant adjustments, the Utility used incorrect depreciation rates. Audit staff requested more information and an explanation of the adjustment schedules; however, the Utility did not respond to these requests in a timely manner. Although the Utility contested Audit Finding No. 1, it failed to provide an explanation as to why it disagreed. As such, audit staff calculated the effect of the COAs on the test year for the instant proceeding and compared the balance to the Utility's filing. Based on this analysis, plant should be reduced by $112,706 for water and $27,535 for wastewater. Accumulated depreciation should be increased by $126,680 for water and $117,089 for wastewater. Corresponding adjustment should be made to increase depreciation expense by $46,010 for water and decrease depreciation expense by $656 for wastewater. In addition, contribution in aid of construction (CIAC) should be increased by $15,383 for water. Accumulated amortization of CIAC should be decreased by $17,836 for water and $24,862 for wastewater. Another corresponding adjustments should be made to decrease amortization of CIAC expense by $42,348 for water and increase amortization of CIAC by $12,364 for wastewater.

According to Audit Finding No. 2, the Utility booked corresponding COAs to depreciation expense and amortization of CIAC in the test year. For accounting purposes, the COAs should be treated as prior-period adjustments because they were adjustments to the Utility's December 31, 2010, general ledger balances. COAs should not affect the current year's operating expenses. The Utility did not provide an explanation as to why it disagreed with this audit finding either. As such, depreciation expense should be decreased by $30,516 for water and increased by $213,431 for wastewater. Amortization of CIAC expense should be increased by $298,851 for water and $146,648 for wastewater.

Conclusion

Based on the above adjustments to rate base, staff recommends that plant should be reduced by $112,706 for water and $27,535 for wastewater. Accumulated depreciation should be increased by $126,680 for water and $117,089 for wastewater. CIAC should be increased by $15,383 for water. Accumulated amortization of CIAC should be decreased by $17,836 for water and $24,862 for wastewater. Additionally, depreciation expense should be increased by $15,494 ($46,010 - $30,516) for water and $212,775 ($213,431 - $656) for wastewater. Amortization of CIAC should be increased for water and wastewater by $256,503 ($42,348 - $298,851) and $159,012 ($12,364 + $146,648), respectively.

**Issue 5**: Should any adjustments be made to the Utility's pro forma plant?

**Recommendation**: Yes. Water plant should be increased by $37,029 and wastewater plant should be decreased by $59,420. Corresponding adjustments should be made to increase water and wastewater accumulated depreciation by $3,086 and $249,954, respectively. Depreciation expense should also be increased by $3,086 for water and decreased by $14,988 for wastewater. Additionally, pro forma property taxes should be increased by $527 for water and decreased by $6,532 for wastewater. (Graves, D. Buys)

**Staff Analysis**: Section 367.081, F.S., provides that the Commission, in fixing rates, shall consider facilities to be constructed within a reasonable time in the future, to be Used and Useful (U&U) if such property is needed to serve current customers. Costs associated with each of the pro forma plant items discussed below have been or are projected to be incurred within two years of the test year. Section 367.081, F.S., additionally provides that the Commission shall approve rates for service which allow a utility to recover the full amount of environmental compliance costs.

Sanlando's initial filing contained three pro forma plant additions. Subsequent to its filing, the Utility identified two additional pro forma plant items that it believes should be included in the current rate case. Staff reviewed the Utility's filings and responses to data requests and recommends that several adjustments to the Utility's desired pro forma plant additions, are necessary. Table 5-1 provides a summary of staff's recommended pro forma plant additions.

Table 5-1

| Staff Recommended Pro Forma Plant Additions | | | | |
|---|---|---|---|---|
| Pro Forma Plant Items | Initial MFR | Response from data request / Filing | Recommended Amount | Documentation |
| Wekiva Hunt Club WWTP EQ Tank and Headworks | $2,200,000 | $2,185,225 | $2,185,225 | Bids/Invoices |
| Wekiva Hunt Club WWTP Electrical Improvements | $600,000 | $257,478 | $257,478 | Bids/Invoices |
| Sanlando Collection System Improvements | $1,000,000 | $973,127 | $973,127 | Bids/Invoices |
| Backhoe Replacement | Not Included | $74,241 | $66,254 | Invoice |
| Wekiva Hunt Club WWTP Air Header Replacement | Not Included | $38,634 | $38,634 | Invoice |
| Total | $3,800,000 | $3,912,875 | $3,520,817 | |

Wekiva Hunt Club WWTP EQ Tank and Headworks Improvements

Sanlando's MFRs included $2.2 million for the construction of a new equalization tank and headworks improvements at its Wekiva WWTP. Per Sanlando's application to DEP, the planned equalization tank and headworks improvements will optimize operations by equalizing flows into the treatment system. Sanlando indicated that increases in peak demand and average day flow negatively impacts the ability to produce plant effluent that meets public access reuse water quality standards. Excess flows during peak periods will be diverted to the equalization tank reducing load variations experienced by the facility. During periods of low flow, surge pumps will pump flow to the WWTP. The headworks improvements include a new splitter box as well as a new mechanical screen that will prevent rags and debris from entering the equalization tank. On March 26, 2014, DEP authorized the construction and installation of the discussed components. This project is scheduled for completion by April 30, 2015.

Sanlando provided a bid tabulation consisting of five bids. Sanlando selected the lowest bid provided by Florida Environmental Construction, Inc. Sanlando's costs also include design and permitting services provided by CPH Engineering. Staff has reviewed the bids as well as recent invoices and recommends that the Commission approve $2,185,225 for this project, which is a $14,775 reduction to the amount requested in the Utility's MFRs. Corresponding adjustments should be made to reduce wastewater accumulated depreciation and depreciation expense by $919.

Wekiva WWTP Electrical Improvements

In its application, Sanlando included $600,000 to replace electrical components within the motor control center at its Wekiva WWTP. The Utility's adjusted plant-in-service balance included a reduction of $450,000 for the corresponding retirement of the existing electrical components. Documentation provided by the Utility indicated that replacement parts for the existing electrical components are unavailable due to the age of the components, and the current configuration of the components is not ideal for maintenance or operation. The new equipment will be installed in a cooler location that allows for safe access for service and maintenance tasks. Staff believes that Sanlando has reasonably justified that the proposed electrical improvements will increase operational reliability. This project is scheduled for completion by June 1, 2015.

The Wekiva WWTP electrical improvements project was separated into a design element and a construction element. For the design element of the electrical improvement project Sanlando did not issue a request for proposals. Sanlando selected an engineering consultant (CPH Engineering) that the Utility has used in the past for various electrical improvement projects including the design of the Wekiva Hunt Club Water Treatment Plant. Additionally, the scope of work associated with the design element of the electrical improvement project amounts to a relatively small portion (5.5 percent) of the total project. Staff believes that the Utility's decision to not solicit multiple bids is a reasonable approach based on the facts discussed above. Staff has reviewed the quote provided to Sanlando and believes $42,000 for the cost of the design element of the electrical improvement project is appropriate.

Regarding the construction element of the electrical improvements project, the Utility received three bids and accepted the lowest bid. Staff reviewed the bids and recent invoices and recommends $215,478 for the cost of the construction element of the electrical improvement project. In total, staff recommends that the Commission approve $257,478 for this project which is a reduction of $342,522 from the amount requested in the Utility's MFRs. An additional adjustment should be made to reduce the retirement amount by $256,892 to $193,109. The net wastewater plant adjustment is a decrease of $85,631. Corresponding adjustments should be made to increase wastewater accumulated depreciation by $252,416 which equates to a reduction of $4,476 to the amount requested in the MFRs for the plant addition and an increase of $256,892 for the amount of the retirement adjustment. In addition, wastewater depreciation expense should be decreased by $12,526 which reflects a reduction of $4,476 to the amount requested in the MFRs for the plant addition and a decrease of $8,050 for the amount of the retirement adjustment.

Sanlando Collection System Improvements

During the third quarter of 2013, an inspection of Sanlando's gravity collection system identified deficiencies that needed repair. In its application, Sanlando included $1 million for these repairs. Repairs included excavation and replacement of approximately 205 linear feet of vitrified clay pipe and the installation of cured in place pipe lining. This project was completed on September 30, 2014. Documents provided by the Utility indicated that completion of these repairs would reduce the infiltration of groundwater into the collection system which will result in reduced electric and chemical costs. The Utility indicated that reduced operating costs are not measurable at this time as the quantity of infiltration is based upon seasonal groundwater tables that vary according to weather patterns. Staff believes that the described project will improve the operation of Sanlando's collection system. Staff notes that the Utility's filing did not indicate excessive inflow and infiltration (I&I).

The Collection System Improvements project consists of two components which include lining and excavation. Four bids were provided for the lining component and three bids were provided for the excavation component. Sanlando accepted the lowest bid for each component and provided invoices totaling $534,677 and $438,450 for the lining and excavation components, respectively. Staff has reviewed the bids and resultant invoices and recommends that the Commission approve a total of $973,127 for the cost of the Collection System Improvements which is a reduction of $26,873 from the amount requested in the Utility's MFRs. A corresponding adjustment should be made to reduce wastewater accumulated depreciation and depreciation expense by $6,125.

Backhoe Replacement

On February 6, 2015, Sanlando filed documentation indicating that it would be replacing its existing backhoe which is used to make repairs to the Utility's distribution and collection systems. According to the filing, the backhoe has been in-service since 1990, and the cost for repairs exceeds its salvage value. During staff's site visit, Utility representatives estimated repairs for the backhoe would cost between $15,000 and $20,000. Given that the age of the current back-hoe is more than twice the average service life (12 years) specified in Rule 25-30.140, F.A.C., staff recommends that replacement at this time is reasonable.

The Utility's filing included three bids for a replacement backhoe. The Utility accepted the lowest bid of $74,241. The backhoe was delivered on February 13, 2015, and a receipt of payment was provided to staff. In response to a staff data request, the Utility stated that the salvage value of the backhoe is $4,500. The Utility also estimated that 95 percent of the time the backhoe would be used for service to Sanlando and the other 5 percent would be used for other Utilities, Inc., water and wastewater systems. Therefore, staff believes the original cost should be reduced by $4,500 for the salvage value of the old backhoe, plus a reduction of 5 percent, or $3,487, to account for the value of the backhoe not used by Sanlando. Staff recommends that the Commission approve $66,254 for the cost of the replacement backhoe and allocate the cost between water and wastewater based on ERCs. Accordingly, staff recommends that water and wastewater plant be increased by $37,029 and $29,225, respectively. Corresponding adjustments should also be made to increase water and wastewater accumulated depreciation, and depreciation expense, by $3,086 and $2,435, respectively.

Wekiva WWTP Air Header Replacement

On February 20, 2015, Sanlando filed documentation indicating that it would need to replace the air header pipe at its Wekiva WWTP and that it believed the related expense should be included in this rate case. According to Sanlando's filing, Sanlando has made numerous repairs, without sustained success, to the existing air header pipe which was installed in 1973. The air header pipe is critical in the Wekiva WWTP's conformance with its National Pollutant Discharge Elimination System operating permit. Sanlando's filing included a signed proposal from Sunshine Building and Development identifying a total project cost of $38,634. The air header replacement was completed and placed in service on March 31, 2015. Staff recommends that the Commission approve $38,634 for this project. Corresponding adjustments should be made to increase wastewater accumulated depreciation and depreciation expense by $2,147.

Conclusion

Based on the above, staff recommends that water plant should be increased by $37,029 and wastewater plant should be decreased by $59,420. Corresponding adjustments should be made to increase water and wastewater accumulated depreciation by $3,086 and $249,954, respectively. Depreciation expense should also be increased by $3,086 for water and decreased by $14,988 for wastewater. Additionally, pro forma property taxes should be increased by $527 for water and decreased by $6,532 for wastewater.

**Issue 6**: What are the Used and Useful percentages of the Utility's water treatment plant, wastewater treatment plant, storage facilities, wastewater collection system, water distribution system, and reuse water system?

**Recommendation**: Consistent with the Utility's last rate case, Sanlando's water and wastewater treatment plants, storage facilities, water distribution and wastewater collection systems, and reuse facilities should continue to be considered 100 percent U&U. (Graves)

**Staff Analysis**: As part of its MFRs, Sanlando provided U&U analyses, of its water and wastewater facilities, in accordance with Rule 25-30.4325, F.A.C., and Rule 25-30.432, F.A.C., respectively. For these analyses, the Utility relied on its records for the test year ended December 31, 2013. In its application, the Utility asserted that its water and wastewater treatment plants, storage facilities, water distribution and wastewater collection systems, and reuse facilities should all be considered 100 percent U&U.

In Sanlando's last rate case, each of the previously mentioned items was determined to be 100 percent U&U. The Utility has not increased the capacity of its water treatment facilities, including storage, or its wastewater treatment facilities since its last rate case. Giving consideration to the Commission's decisions in past rate cases, as well as information provided by the Utility in the current rate case, staff recommends the Utility's water and wastewater treatment plants, storage facilities, water distribution and wastewater collection systems, and reuse facilities continue to be considered 100 percent U&U.

**Issue 7**: What is the appropriate working capital allowance?

**Recommendation**: The appropriate working capital allowance is $211,256 for water and $255,887 for wastewater. As such, the working capital allowance should be increased by $47,237 for water and $40,312 for wastewater. (Frank)

**Staff Analysis**: Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. In its MFRs, Sanlando reflected a working capital allowance of $164,019 for water and $215,575 for wastewater. As addressed in Issue 2, customer deposits should be removed from working capital. This results in an increase of $27,695 for water and an increase of $21,854 for wastewater. Staff believes additional adjustments are necessary.

Regulatory Asset

Issue 3 addresses the regulatory asset but does not include an adjustment to working capital. Staff adjusted working capital to reflect the unamortized balance of the regulatory asset granted in the UI Generic Docket.[13] This reflects an increase of $2,496 for water and an increase of $1,948 for wastewater.

Deferred Rate Case Expense

In its MFRs, Sanlando reflected deferred rate case expense of $95,203 for water and $75,122 for wastewater. In the UI Generic Docket, the Commission approved an allocated total rate case expense of $43,498.[14] In the Utility's last rate case, the Commission approved total rate case expense of $226,820.[15] As discussed in Issue 15, staff is recommending total rate case expense of $137,144. It is Commission practice to include one-half of the approved amount of rate case expense from prior cases that have not been fully amortized, as well as half of the approved amount in the instant docket in working capital under the balance sheet method.[16] Consistent with Commission practice, staff calculated deferred rate case expense to include in working capital to be $113,949 for water and $89,932 for wastewater. As such, staff recommends that working capital be increased by $18,746 for water and $14,810 for wastewater.

[13] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[14] Order No. PSC-14-0521-FOF-WS, p. 25.
[15] Order No. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.
[16] Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; and PSC-010326-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.

Materials & Supplies

In its MFRs, Sanlando reflected materials and supplies expense of $27,515 for water and $32,584 for wastewater. The Utility allocated materials and supplies expense based on the gross plant of its water and wastewater systems. As a result of staff's recommended changes to gross plant, Sanlando's working capital should be decreased by $1,700 for water and increased by $1,700 for wastewater.

Conclusion

Based on the adjustments above, staff recommends a working capital allowance of $211,256 for water and $255,887 for wastewater. This reflects an increase of $47,237 for water and an increase $40,312 for wastewater to the Utility's requested working capital allowance of $164,019 and $215,575 for water and wastewater, respectively.

**Issue 8**: What is the appropriate rate base for the test year ended December 31, 2013?

**Recommendation**: The appropriate 13-month average rate base for the test year ended December 31, 2013, is $8,756,187 for water and $14,051,164 for wastewater. (D. Buys)

**Staff Analysis**: In its MFRs, the Utility recorded rate base of $8,535,204 for water and $14,862,863 for wastewater. Staff calculated Sanlando's water and wastewater rate bases using the Utility's MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate 13-month average rate base for the test year ended December 31, 2013, is $8,756,187 for water and $14,051,164 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

**COST OF CAPITAL**

**Issue 9**: What is the appropriate return on equity?

**Recommendation**: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.53 percent with an allowed range of plus or minus 100 basis points. (D. Buys)

**Staff Analysis**: The ROE included in the Utility's MFRs is 10.53 percent. Based on the current leverage formula in effect and an equity ratio of 47.34 percent, the appropriate ROE is 10.53 percent.[17] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[17] 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 10**: 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, 2013?

**Recommendation**: The appropriate weighted average cost of capital for the test year ended December 31, 2013 is 7.94 percent. (D. Buys)

**Staff Analysis**: In its filing, Sanlando requested an overall cost of capital of 7.96 percent. Staff recommends two adjustments to the Utility's capital components included in its capital structure.

First, the Utility included a cost rate of 6.00 percent for customer deposits. Pursuant to Rule 25-30.311, F.A.C., Customer Deposits, the minimum interest rate for residential customer deposits is 2.00 percent per annum. The Utility confirmed that its sister UI water and wastewater utilities use a 2.00 percent cost rate for customer deposits. Therefore, staff recommends that 2.00 percent is the appropriate cost rate for customer deposits. This adjustment results in the 2 basis point reduction in the overall cost of capital requested by the Utility.

Second, the Utility has requested to include pro forma plant additions in the instant docket. Pursuant to UI's settlement agreement with the Office of Public Counsel and approved by the Commission by Order No. PSC-14-0044-FOF-WS, the Utility agreed to make adjustments to its capital structure as necessary to reflect the proper amount of deferred income taxes on pro forma plant additions.[18] Due to tax timing differences between the Internal Revenue Service and state regulatory depreciation, the additional plant investment caused changes to the balance of ADITs. Sanlando did not include in its filling an adjustment to its capital structure to reflect the proper amount of deferred income taxes on its pro forma plant additions.

In its response to Staff's Fourth Data Request filed on March 16, 2014, the Utility provided its calculation of the deferred income taxes on pro forma plant additions. The Utility presented an adjustment to reduce deferred taxes by $12,340. Upon review of the Utility's filing, staff determined the calculation included incorrect depreciation lives for some of the plant items and used an incorrect composite income tax rate. After making corrections to the Utility's calculation, staff believes the appropriate amount of the adjustment is a reduction of $7,254.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2013, including the aforementioned adjustments, staff recommends a weighted average cost of capital of 7.94 percent. Schedule No. 2 details staff's recommended overall cost of capital.

[18] Order No. PSC-14-0044-FOF-WS.

**Issue 11**: What is the appropriate amount of test year revenues for the Utility's water and wastewater systems?

**Recommendation**: The appropriate test year revenues for Sanlando's water and wastewater systems are $4,115,972 and $3,905,490, respectively. (Thompson)

**Staff Analysis**: In its MFRs, Sanlando's adjusted test year revenues were $4,168,755 for water and $3,935,620 for wastewater. The water revenues include $4,132,547 of service revenues and $36,208 of miscellaneous revenues. The wastewater revenues include $3,923,332 of service revenues and $12,288 of miscellaneous revenues.

In order to determine the appropriate test year service revenues, staff annualized test year revenues by applying the rates in effect as of August 26, 2014, to the appropriate billing determinants.[19] Accordingly, test year service revenues should be $4,082,495 for water and $3,893,622 for wastewater. This results in a decrease of $50,052 ($4,132,547 - $4,082,495) for water and $29,710 ($3,923,332 - $3,893,622) for wastewater test year service revenues. Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility improperly recorded $463 for water and $420 for wastewater as connection meter fees. In addition, the Utility recorded $2,268 of unsupported revenues to water miscellaneous service revenues. Therefore, staff decreased miscellaneous revenues by $2,731 ($2,268 + $463) and $420 for water and wastewater, respectively.

Further, in its letter dated February 18, 2015, the Office of Public Counsel raised a concern about the revenues received by the Utility's parent company, Utilities, Inc. (UI), from HomeServe USA (HomeServe). HomeServe is an independent contractor that provides maintenance contracts to Sanlando's customers. The Utility states that the revenues are booked at the UI level and are not allocated to the operating companies. OPC expressed the opinion that these revenues should be allocated to the utility systems. The Commission has previously concluded that the revenues are recorded below-the-line and, therefore, do not need to be included in test year revenues.[20]

Based on the above, the appropriate test year revenues for Sanlando's water and wastewater systems, including miscellaneous revenues are $4,115,972 and $3,905,490, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

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[19] The Utility had a Four Year Rate Reduction that became effective August 26, 2014.
[20] Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

**Issue 12**: Should any adjustments be made to the Utility's pro forma expense?

**Recommendation**: Yes. Staff recommends the Commission approve $73,731 of pro forma wastewater expense for annual inspection activities. In addition, wastewater amortization expense should be increased by $2,298. (Graves, D. Buys)

**Staff Analysis**: Staff has reviewed the Utility's filings and recommends two adjustments to pro forma expense. Staff's recommended adjustments are discussed below.

Annual Inspection Activities

On February 18, 2015, Sanlando provided a letter requesting costs associated with a program to inspect and clean 10 percent of its gravity collection system annually be included as pro forma expense in this rate case. The Utility estimated the cost of the program to be $83,684 based on a per linear foot estimate provided by American In-Line Inspection Inc. (American In-Line). Sanlando does not have a signed bid for the work to be performed in the future; rather, the Utility has indicated that it intends to solicit multiple bids each year in advance of its annual inspection activities.

Sanlando indicated that it would typically initiate an investigation of a portion of its collection system after analyzing wet and dry weather flow patterns in order to identify likely locations of excess I&I entering the system. In the fourth quarter of 2013 and the first quarter of 2014, following the identification of potential excess, American In-Line performed inspection and cleaning for Sanlando. Invoices indicate that American In-Line inspected and cleaned roughly 10 percent of the Utility's gravity collection system at a cost of $73,731. Staff has reviewed the Utility's filings and these costs do not appear to be included in the test year. Staff would note that the invoices as well as a signed bid indicate that American In-Line performed a lesser scope of work than that assumed in the Utility's estimated cost.

In response to a staff data request, Sanlando indicated that the majority of the wastewater collection flow system is comprised of vitreous clay pipe installed prior to 1990, which by its age and nature, presents an elevated risk of pipe and gasket failure. Therefore, the Utility explained that an annual inspection program would be prudent in order to identify deficiencies before failures occur or the delivery of wastewater service to customers is impacted. Sanlando further asserted that the proposed program will provide multiple benefits that will improve the operation of the Utility's wastewater facilities and reduce purchased power costs by maintaining pumping efficiency and reducing excess flow volume. Staff recommends that the Commission approve $73,731 of pro forma expense for the annual inspection activities discussed above. Staff's recommended cost reflects the same scope of work performed by American In-Line in 2013 and 2014.

Wastewater Amortization Expense

On September 11, 2012, the Utility decommissioned and diverted all wastewater flows from its Des Pinar WWTP to its Wekiva WWTP. The demolition of the Des Pinar WWTP was completed in May 2014. Subsequently, the Utility requested to recover expenses of $11,490 for the demolition and removal of a steel tank and disconnection of all power and control circuits in preparation for the demolition of the wastewater treatment plant. Sanlando requested that the expense be amortized over five years pursuant to Rule 25-30.433(8), F.A.C., Rate Case Proceedings, which states, “Non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified.” Staff reviewed the Utility’s request and verified that invoices in the amount requested have been provided and the expense is known and reasonable. Therefore, staff recommends that wastewater amortization expense be increased by $2,298.

Conclusion

Staff recommends the Commission approve $73,731 of pro forma wastewater expense for annual inspection activities. In addition, wastewater amortization expense should be increased by $2,298.

**NET OPERATING INCOME**

**Issue 13**: Should any adjustment be made to the Utility's salaries and wages expense?

**Recommendation**: Yes. Salaries and wages expense should be decreased by the amounts included in Issue 2, Audit Adjustments Agreed to by the Utility and staff. In addition, Employee Pensions and Benefits expense should be further decreased by $5,794 and $4,573, for water and wastewater, respectively. (D. Buys)

**Staff Analysis**: In its MFRs, the Utility reflected water and wastewater salaries and wages expense of $716,973 and $503,889, respectively. In the audit of UI affiliate transactions for Sanlando and Labrador Utilities, Inc. (Labrador), audit staff compared the most current annualized salaries and the allocated salaries, benefits, and payroll taxes for Sanlando to the total adjusted amounts in the Utility's filing. Adjustments were made to reflect the variances between the amounts in the audited schedules and the amounts in the MFRs. The Utility agreed with the audit findings and the resulting adjustments to the expenses are reflected in Table 13-1, which are also shown in Issue 2.

Table 13-1

| Audit Adjustments | | |
|---|---|---|
| | Water | Wastewater |
| Salaries and Wages | ($49,932) | $22,519 |
| Payroll Taxes | ($7,698) | ($6,017) |
| Pensions and Benefits | ($14,411) | ($11,077) |
| Total | ($72,041) | $5,425 |

The schedules provided to the audit staff by the Utility contained the most recent salary expenses at the end of April 2014, plus an increase of 3 percent to reflect the Utility's 2015 salaries and wages expense. Staff believes that the 3 percent increase for 2015 represents a pro forma expense that is outside of the test year and normally would be disallowed. The Commission, however, has previously allowed recovery of operation and maintenance (O&M) expenses that reflect increases associated with inflation, and recognized that reducing expenses back to the amount approved in the Utility's last rate case would effectively remove an increase the Commission has already granted in prior index applications. The Commission approved index increases for Sanlando in 2012 and 2013 for a total O&M increase of approximately 4 percent. Disallowance of the 3 percent increase for 2015 would result in decreasing the Utility's salaries and wages and payroll taxes expenses below the amount previously approved by the Commission through the index increases. Consequently, staff recommends no adjustment to salaries and payroll taxes other than the adjustment for the audit finding.

The audited Pensions and Benefits expense for Sanlando is $193,126 for water and $152,420 for wastewater, which represents an increase of 28 percent over the amounts approved in the Utility's last rate case. These amounts also include a 3 percent increase to annualize the expense for 2015. Staff recommends that the 3 percent increase associated with the 2015 annualization be disallowed because it is outside the test year and is greater than the price index increase previously authorized by the Commission. The resulting expense is $187,332 for water and $147,847 for wastewater, or an increase of 16.18 percent over the amounts approved by the Commission in the last rate case. Therefore, staff recommends that Pensions and Benefits expense be reduced by $5,794 for water and $4,573 for wastewater.

**Issue 14**: Should further adjustments be made to the Utility's O&M expense?

**Recommendation**: Yes. O&M expense should be increased by $34,060 for water and decreased by $91,693 for wastewater. (Monroe, Graves, T. Brown)

**Staff Analysis**: Based on its review of test year O&M expense, staff recommends several adjustments to the Utility's O&M expense as summarized below.

O&M Expense Allocation

In the Affiliate Audit for UI, the staff auditors examined O&M expense allocations for Sanlando. Staff auditors found that the Utility changed the methodology in which it allocated all but direct O&M expenses between water and wastewater. In prior rate cases, the Utility used test year-end ERC factors to allocate O&M expenses between water and wastewater in accordance with the Commission's post-hearing decision in a sister utility's 2002 docket.[21] However, in the instant filing, the expenses were allocated based on business units. As a result, the staff auditors recalculated O&M water and wastewater balances based on the practice in prior rate cases and recommended that O&M expense be increased by $45,660 for water and decreased by $42,875 for wastewater.

In its response to Affiliate Audit Finding No. 6, Sanlando disagreed with the finding and asserted that it is still using ERCs to allocate common plant and expenses and that there has been no change in its methodology. Although the Utility disagreed with Audit Finding No. 6, it failed to provide any calculations or documentation to refute the finding. Therefore, in accordance with the Commission's post-hearing decision in Order No. PSC-03-1441-FOF-WS, staff recommends that Sanlando's water and wastewater expenses be adjusted as indicated above.

Chemicals and Purchased Power

Sanlando's MFRs indicated that the Utility had negative unaccounted for water (-2.88 percent or -63.603 million gallons) during the test year, meaning that the Utility sold more water than it pumped during 2013. In response to a staff data request, Sanlando indicated that its staff, on July 12, 2014, discovered that a normally closed emergency interconnection with Orange County Utilities was fully open thus allowing water to flow from one system to the other. Pressure data gathered by Sanlando field staff indicated that Orange County Utilities supplied water to the Sanlando water system for an unknown period of time terminating in July 2014. According to Sanlando's 2012 and 2013 Annual Reports, gallons sold exceeded gallons pumped and unaccounted for water was negative. Therefore, staff believes that it is reasonable to assume that the valve was open for the entirety of the 2013 test year.

Sanlando believes that adjustments to its chemical and purchased power expenses should be made to reflect additional operating expenses to make up for the water no longer supplied through the Orange County Utilities interconnection. Staff agrees with the Utility that adjustments to O&M expense should be made.

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[21] Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Giving consideration to the age of its meters, Sanlando suggested that an unaccounted for water percentage of 2.78 percent is reasonable for making the requested adjustments. This equates to a 125 million gallon adjustment to Sanlando's gallons pumped during the test year. Staff believes that a reasonable minimum for the proposed adjustment would be 63.60 million gallons, which is the difference between the water sold in the test year and the volume produced by Sanlando. Staff further believes that a reasonable maximum would be 339.9 million gallons, which results in the same unaccounted for percentage (10.91 percent) as calculated in Sanlando's last rate case. Therefore, staff recommends that Sanlando's proposed adjustment of 125 million gallons is reasonable based on data in the Utility's last rate case and the test year.

Based on the above, Sanlando requested an adjustment to increase water O&M expenses by $27,220 to account for increased chemicals and purchased power. Staff reviewed Sanlando's calculation and believes that the Utility made an error by not multiplying the adjusted chemical consumption by the relevant per unit cost. Staff has corrected the error, and based on its calculation, staff recommends an increase of $28,207 ($7,417 to chemical expense and $20,793 to purchased power expense) for its water system.

Prior to the 2013 test year, Sanlando's Des Pinar WWTP was taken out of service and flows were diverted to the Utility's Wekiva WWTP. According to staff's audit, the Utility asserted that any increase in annual operating expense at the Wekiva WWTP was offset by a corresponding decrease in annual operating expense due to the closure of the Des Pinar WWTP. Subsequently, in response to Staff's Fourth Data Request, the Utility indicated there was one exception. According to Sanlando's response, the Utility incurred $41,645 in chemical costs for the purchase of sodium aluminate that was used in the treatment process approximately 182 days in that year. Sanlando stated that, on a going forward basis, it expects DEP to drastically reduce the permitted loading rate on the percolation ponds. As a consequence, Sanlando anticipates that the discharge of Wekiva Plant's effluent to surface waters will occur sporadically throughout the year thus impacting the use of sodium aluminate on a going forward basis. Sanlando estimated an increase of $83,290 in chemical expense associated with the anticipated DEP permit changes.

As discussed above, the basis for Sanlando's estimated increase is an expected DEP permit change which the Utility describes as drastic. Staff understands that the anticipated changes may impact the Utility's operations; however, staff believes that the uncertainty of the changes make it difficult to quantify the magnitude of the changes. Therefore, staff does not recommend that the Commission make the $83,290 increase in chemical expense as estimated by the Utility.

Computer Maintenance Expense

In several recent rate cases involving Sanlando's sister companies, the Commission recognized the volatility of computer maintenance expense.[22] Due to this volatility, the Commission has routinely used a five-year average as an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC at that time.[23]

A five-year average was initially calculated using the computer maintenance expense included in the Utility's general ledger for 2009, 2010, 2011, 2012, and 2013. However, staff notes that the computer maintenance expense for 2010 is an anomaly when compared to the other years, as reflected in the following table. Staff believes that computer maintenance expense should be determined in a prospective manner for the Utility. In this docket, staff believes that computer maintenance expense should be based on a three-year average, using amounts from 2011, 2012, and 2013. This results in an average computer maintenance expense of $114,134, a reduction of $8,139 from the expense included in the Utility's test year. Based on the three-year average, staff calculated a reduction of $4,549 for water and $3,590 for wastewater.

Table 14-1

| Computer Maintenance Expense | |
|---|---|
| Year | Expense |
| 2009 | $126,190 |
| 2010 | $144,753 |
| 2011 | $107,799 |
| 2012 | $112,330 |
| 2013 | $122,273 |

As mentioned previously in Issue 3, the Commission altered its treatment of divestitures, so that any adjustment related to UI divested systems was net of any UI acquisitions, and, based on 2015 total ERCs, a divesture adjustment is no longer necessary. Accordingly, an adjustment to computer maintenance expense related to divestitures is no longer necessary.

[22] Order Nos. PSC-14-0335-PAA-WS, issued June 30, 2014, in Docket No. 130243-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.; PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

[23] Order Nos. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Contractual Services-Engineering

According to Audit Finding No. 17 of the Sanlando audit, costs associated with pro forma plant improvements were incorrectly recorded as O&M expenses. Audit staff discovered two invoices for engineering services associated with the Wekiva Surge Tank expansion, totaling $12,945, that were recorded as expenses in Account No. 731, contractual services-engineering. The Wekiva Surge Tank expansion is a pro forma plant improvement in the instant docket and these costs were included in staff's recommended pro forma plant adjustment. The Utility disagreed with Audit Finding No. 17 but did not provide an explanation or justification as to why it disagreed. Therefore, staff recommends that $12,945 should be removed from contractual services-engineering expense.

Contractual Services-Other

According to audit staff's work papers and the UI general ledger, the account for "Internet Supplier" expense included 13 monthly payments allocated to Sanlando. Staff believes that the second December payment of $13,943 is an out-of-period expense and should be removed. This results in a reduction of Sanlando allocated expenses by $1,101 (7.90 percent x $13,943). The removal of these costs result in a decrease to contractual services-other expense of $616 for water and $486 for wastewater.

A review of UI's general ledger for "Other Outside Services" expense revealed a May entry for $18,225 that was for the review of the forecast for three utilities (Lake Utility Services, Inc., a Carolina utility, and a Louisiana utility). Staff believes these expenses should be a direct charge to those systems and the amount allocated to Sanlando should be removed. This results in a reduction of $1,440 (7.90 percent x $18,225) to Sanlando. The removal of these costs results in a further reduction to contractual services-other expense of $805 for water and $635 for wastewater.

Regulatory Commission Expense-Rate Case Amortization

In Sanlando's last rate proceeding, the Commission approved annual amortization of rate case expense in the amount of $31,851 and $24,854 for water and wastewater, respectively.[24] In its MFRs, the Utility recorded test year rate case expense of $63,137 and $49,789, respectively, for water and wastewater. Consistent with the annual amortization amount approved in the Utility's last rate case, staff recommends that test year rate case expense be reduced by $31,286 ($63,137 - $31,851) for water and $24,935 ($49,789 - $24,854) for wastewater.

Miscellaneous Expense

Staff reviewed the Affiliate Audit Work Papers 43-7.5 for miscellaneous expenses which showed that multiple payments totaling $46,259 were recorded for the Leadership Training Conference in Orlando, Florida, at the Rosen Conference Center. The expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed

[24] Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes, Inc.

expense support documentation warrants an adjustment in this instance. The Utility was put on notice that detailed support of this expense was required. Therefore, these costs should be disallowed consistent with the Commission decision in a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.[25] Therefore, Sanlando's expenses should be reduced by $3,654 (7.90 percent x $46,259). The removal of these costs result in a decrease to miscellaneous expense of $2,043 for water and $1,611 for wastewater.

The Affiliate Audit work papers for UI also indicated that office landscape and mowing allocations included in miscellaneous expense increased substantially from 2012 to 2013. A substantial amount of this increase was due to tree removal. Staff verified that this was a reccurring expense. To determine an amount that is more representative of the costs the Utility would normally incur, staff calculated a four-year average using the amounts recorded for 2010-2013. Based on a four-year average, the 2013 expenses for office landscape/mowing should be reduced by $11,574, with an allocation for Sanlando of $914. Miscellaneous expense for water and wastewater should be reduced by $511 and $403, respectively.

Staff's final adjustment to miscellaneous expense is to decrease landscaping costs associated with the retirement of the Des Pinar WWTP. The Utility retired the Des Pinar WWTP since its last rate case; and therefore, O&M expenses associated with the land should be removed. Staff's audit of Sanlando indicates $25,800 in landscape and lawn services for the test year. Approximately 9.94 acres of the 60.87 total acres of utility land contained three percolation ponds that will be reclassified as land held for future use. Since this land does not currently serve customers, expenses associated with its maintenance should be removed. Staff recommends a $4,213 ((9.94/60.87) x $25,800) reduction to miscellaneous expenses for wastewater to reflect the removal of landscape costs for the land associated with the retired portion of the Des Pinar WWTP.

[25] Order No. PSC-14-0283-PAA-WS.

Conclusion

Based on the adjustments above, staff recommends that O&M expenses be increased by $38,609 for water and decreased by $88,103 for wastewater, as shown in the following table.

Table 14-2

| Summary of Further Adjustments to O&M Expense | | | |
|---|---|---|---|
| | | Water | Wastewater |
| 1 | Audit Finding No. 6 | $45,660 | ($42,875) |
| 2 | Chemicals | 7,417 | 0 |
| 3 | Purchased Power | 20,793 | 0 |
| 4 | Computer Maintenance | (4,549) | (3,590) |
| 5 | Contractual Services-Engineering | 0 | (12,945) |
| 6 | Contractual Services - Other | | |
| 7 | Internet Supplier | (616) | (486) |
| 8 | Other Outside Services | (805) | (635) |
| 9 | Regulatory Commission Expense-Rate Case Amortization | (31,286) | (24,935) |
| 10 | Miscellaneous Expense - | | |
| 11 | Rosen Hotel | (2,043) | (1,611) |
| 12 | Office Landscaping/Mowing | (511) | (403) |
| 13 | Des Pinar Landscaping | 0 | (4,213) |
| 14 | Total | $34,060 | ($91,693) |

**Issue 15**: What is the appropriate amount of rate case expense?

**Recommendation**: The appropriate amount of rate case expense is $180,942. This expense should be recovered over four years for an annual expense of $45,236. Therefore, annual rate case expense should be decreased by $6,449 for water and $5,090 for wastewater from the respective levels of expense included in the MFRs. (T. Brown, Norris)

**Staff Analysis**: In its MFRs, Sanlando requested $227,100 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 February 2, 2015, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled $173,912. A breakdown of the Utility's requested rate case expense is as follows:

Table 15-1

| Initial and Revised Rate Case Expense | | | | |
|---|---|---|---|---|
| | MFR B-10 Estimated | Actual | Additional Estimated | Revised Total |
| Legal Fees | $53,000 | $28,872 | $15,465 | $44,337 |
| Accounting Consultant Fees | 66,000 | 65,188 | 7,400 | 72,588 |
| Engineering Consultant Fees | 3,000 | 3,188 | 0 | 3,188 |
| Water Service Corporation (WSC) In-house Fees | 95,000 | 40,660 | 3,040 | 43,700 |
| Filing Fee | 4,000 | 0 | 4,000 | 4,000 |
| WSC Travel | 1,000 | 0 | 1,000 | 1,000 |
| WSC FedEx/Misc. | 100 | 0 | 100 | 100 |
| Cust. Notices and Postage | 5,000 | 0 | 5,000 | 5,000 |
| Total | $227,100 | $137,908 | $36,005 | $173,912 |

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Sanlando's rate case expense estimate are appropriate.

Legal Consultant Fees – Friedman & Friedman, P.A. (F&F)

The first adjustment to rate case expense relates to Sanlando's legal fees. In its MFRs, the Utility included $53,000 in legal fees to complete the rate case. The Utility provided support documentation detailing this expense through December 10, 2014. The actual fees and costs totaled $28,872 with an estimated $15,465 to complete the rate case, totaling $44,337. Actual expenses included the $9,000 filing fee, of which $4,000 was also included under "Public

Service Commission – Filing Fee." Staff has left the filing fee as part of the legal fees and will remove the entry elsewhere in this issue to avoid double recovery of this fee.

According to invoices, the law firm of F&F identified and billed the Utility $245 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[26] In addition to the deficiency expense identified by F&F, staff also found an entry in the October 1, 2014, invoice that referenced, in part, "Research and draft responses to Deficiency Letter and file same." Staff believes that a portion of the 2.90 hours referenced in that invoice entry should also be removed. Since there were four broad activities included in that entry, staff believes that 0.725 hours (¼ of the time), or $254 ($350/hr. x 0.725), should be attributed to the deficiency and removed.

In a June 11, 2014, invoice entry, F&F noted 5.90 hours, or $2,065, for "Travel to Tallahassee for pre-filing meeting with PSC staff." This same entry appears in F&F's support documentation in Labrador rate case. While staff believes it is appropriate to split the shared costs, staff believes it should be split three ways instead of in half. UI and Commission staff discussed a sister utility, Mid-County Services, Inc., in addition to Sanlando and Labrador at that meeting. As such, the total cost of the pre-filing meeting, $4,130 ($2,065 + $2,065), should be divided among the three utilities. This results in a per utility cost of approximately $1,377. As such, $688 ($1,377 – $2,065) should be removed from F&F's fees to reflect the revised division.

Adjustments to actual rate case expense should be made for the time associated with a missed customer notice mailing deadline. Staff believes that a total of 1.067 hours, or $373 ($350/hr. x 1.067 hrs.), should be removed due to the time required to redraft documents and reschedule the customer meeting that would have been unnecessary had the deadline been met.[27,28] Accordingly, staff believes that $1,560 ($245 + $254 + $688 + $373) should be removed as duplicative and unreasonable rate case expense.

Additionally, staff recommends an adjustment to the estimated cost to complete this case. F&F's estimate to complete included fees for 41 hours at $360/hr.[29] and additional costs totaling $705. Staff believes that most of the estimated hours to complete appear reasonable, except for 5.5 hours related to the customer meeting in Altamonte Springs and 15 hours requested to "prepare for and attend Agenda conference, discuss Agenda with client and staff." Staff believes

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[26] Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and 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.

[27] Support documentation provided by F&F indicated that on December 3, 2014, 0.90 hours, or $315 ($350/hr. x 0.90 hours), were spent on various tasks related to the missed mailing deadline. On December 10, 2014, three activities, totaling 0.50 hours are noted, with one of the activities labeled "Review affidavit and initial Customer Notice and draft Notice of Filing." As such, staff believes that 1/3 of the time, or 0.167 hrs., should be removed. These adjustments total 1.067 hours.

[28] F&F's Work-In-Progress indicated 0.90 hours on December 3, 2014, related to the missed customer notice deadline. One-third of the 0.50 hours on December 10, 2014, also appears to be related to the missed deadline. As such, staff believes 0.167 hours (0.50 hrs./3) should be removed from actual expenses. Document No. 00226-15.

[29] Beginning January 1, 2015, the hourly rate increased based upon the application of the Price Index since hourly rates were last adjusted. This results in a new hourly rate of $360.

that 1.5 hours is appropriate for preparation and attendance at the customer meeting due to the brevity of the meeting and the proximity of F&F's offices to the meeting site. According to the transcript, the customer meeting lasted less than 30 minutes, beginning at 6:07 p.m. and ending at 6:24 p.m.[30] Moreover, F&F's offices are located approximately 10 miles away in Lake Mary. As such, 4 hours, or $1,440 ($360/hr. x 4 hrs.), related to the customer meeting should be removed. Attorney's fees and costs associated with the Commission Conference should also be reduced due to the fact that the attorney is also handling a rate case for a Utilities, Inc., sister utility at the same Commission Conference.[31] As such, legal fees and costs associated with attending the Commission Conference should be shared by both Utilities. Accordingly, staff recommends that 7.5 hours, or $2,700 ($360/hr. x 7.5 hrs.), be removed from estimated rate case expense. In total, staff recommends that legal fees and costs shall be reduced by $5,700 ($1,560 + $1,440 + $2,700) to reflect these adjustments.

Accounting Consultant Fees – Milian, Swain & Associates (MS&A)

The second adjustment relates to MS&A's actual and estimated fees of $72,588, which was comprised of $65,188 in actual costs and $7,400 in estimated fees to complete the rate case as of December 11, 2014.

In regard to MS&A's actual expenses, staff reviewed the supporting documentation and found that approximately 351 hours were related to MFR preparation. Staff was concerned that the number of hours related to MFR preparation might be duplicative of the hours spent by WSC In-House employees on the same task. Staff asked the Utility to explain why the WSC In-House hours related to MFR preparation (190 hours) were not duplicative of the hours for MFR preparation and review that MS&A documented in its rate case expense support documentation.[32] In response to staff's data request on the matter, the Utility responded by stating:

> The WSC In-House hours related to MFR preparation are in no way duplicative of the hours Milian, Swain and Associates, Inc. spends on MFR preparation. The WSC In-House hours associated with the MFR preparation primarily entail gathering the company's raw data, project plans, invoices and a slew of other information and then translating those items into a usable format for Milian, Swain and Associates, Inc. to use in the preparation of the MFRs.[33]

Staff will address adjustments to WSC's hours later in this issue. Given the Utility's response above and the additional adjustments to WSC hours recommended later, staff believes no additional adjustments to MS&A's actual expense are necessary.

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[30] Document No. 01172-15, Customer Meeting Transcript from February 10, 2015.
[31] Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.
[32] Based on the itemized descriptions of rate case work performed by WSC employees, approximately 16 hours of various MFR preparation are recorded for Patrick Flynn. Darrien Pitts' hours reflected approximately 124 for preparation of MFR schedules A, B, D, and E, and an additional 50 hours for the preparation of the chemical and transportation schedules.
[33] Document No. 01439-15, filed March 16, 2015.

MS&A estimates that a total of 47 hours are needed to complete the case. According to MS&A's summary, the consultant estimated the following:

Table 15-2

| MS&A's Estimated Hours to Complete Case | |
|---|---|
| Est. Hours | Activity |
| 11.5 | Provide support to client – Responses to Staff's Data Requests, including updates to Rate Case Expense. |
| 2.5 | Review Interim Order, test interim rates and consult with client. |
| 11 | Review audit, discuss issues with client |
| 3 | Review OPC interrogatories, researching and preparing response, discussion with client and legal and follow-up. |
| 12 | Review Staff recommendations, testing recommended revenue requirements and resulting rates, including suppression calculations, and discuss with client. |
| 7 | Review PAA Order, testing final approved revenue requirements and resulting final rates, including suppression calculations, and discuss with client. |
| 47 | Total |

Staff believes the number of hours estimated for accounting consultant fees is excessive and unreasonable. MS&A has estimated 11.5 hours to respond to data request responses and provide updates to rate case expense. Only one additional data request was sent after MS&A's summary was assembled and staff believes that any response would require minimal time from the accounting consultant. In fact, it is likely that these data requests would be more appropriately addressed by WSC In-House employees. Moreover, no additional updates to rate case expense were received from this consultant. As such, staff believes that a total of 5.75 hours should be sufficient to address any remaining tasks. Accordingly, staff recommends a reduction of 5.75 hours (5 hours for C. Yapp, 0.75 hours for D. Swain).

MS&A included 2.5 hours in connection with reviewing the Interim Order in this docket. Staff notes that the Interim Order was issued on October 22, 2014.[34] Staff believes that any review of the Interim Order would have taken place between the order's issuance and the billed through date of December 11, 2014. As such, staff recommends a reduction of 2.5 hours (2 hours for C. Yapp, 0.5 hours for D. Swain).

Likewise, MS&A included 3 hours for reviewing OPC's interrogatories, preparing responses, discussions with client, and any follow-up. OPC did not file any interrogatories in this proceeding. As such, 3 hours (2 hours for C. Yapp, 1 hour for D. Swain) should be removed from estimated rate case expense.

In addition, MS&A included 11 hours to review the audit and discuss issues with client. Staff notes that two audit reports were prepared in this docket: the Sanlando audit report (issued

[34] Order No. PSC-14-0591-PCO-WS, issued October 22, 2014.

on October 23, 2014) and the UI affiliate transactions audit report (issued on November 6, 2014). Staff believes that the majority of MS&A's audit review likely occurred between each audit's issuance and the billed through date of December 11, 2014. However, staff recognizes that some additional review and discussion may have occurred outside of that period. Even though the Utility agreed with the majority of audit staff's adjustments, staff believes that MS&A may have provided information or analysis prior to the Utility filing its audit responses.[35] Absent additional information, staff believes that a total of 5.5 hours should be sufficient to address any remaining audit-related tasks. Accordingly, staff recommends a reduction of 5.5 hours (5 hours for C. Yapp, 0.5 hours for D. Swain).

MS&A included an additional 19 hours to complete the case from the filing of staff recommendation to the completion of the PAA process. This consultant has worked with Sanlando, and other UI systems, on numerous dockets before this Commission through the years. The consultant's familiarity with the Utility and this Commission led staff to believe that the request is excessive and unreasonable. Absent additional support, staff believes that a total of 9.5 hours is an ample amount of time to review staff's recommendation and the Commission's PAA Order, and consult with their client in the instant docket. Accordingly, staff recommends a reduction to audit related hours of 9.5 hours (8 hours for C. Yapp, 1.5 hours for D. Swain).

In summary, staff recommends reducing the associate accountant's estimated hours to complete from 40 to 18, and the accounting firm partner's estimated hours to complete from 7 to 2.75. As such, staff believes that an additional $3,300 (22 hrs. x $150/hr.) should be removed for C. Yapp and $850 (4.25 hrs. x $200/hr.) be removed for D. Swain. Accordingly, staff recommends that accounting consultant fees be reduced by $4,150 ($3,300 + $850).

Engineering Consultant Fees – M&R Consultants

The Utility included $3,000 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to staff's data requests. The Utility provided support documentation detailing this expense through December 2014. The actual fees and costs totaled $3,188 with no additional estimated to complete the rate case. Staff believes the full amount of $3,188 to be reasonable and justified. Accordingly, no adjustment is necessary.

[35] The Utility accepted 14 of the 18 findings in the Audit Report of Sanlando Utilities, Corporation and 5 of the 8 findings in the Audit of Affiliate Transactions Report. Document No. 00712-15, filed February 2, 2015.

WSC In-House Staff Fees

The Commission has previously disallowed WSC in-house staff fees in several dockets involving the Utility's sister companies.[36] However, the Commission subsequently allowed the inclusion of this expense for its sister companies, Utilities, Inc. of Florida and Cypress Lakes Utilities, Inc., based on the removal of employee salaries from the total salaries and wages balance prior to any allocation.[37] Based on its review of Sanlando's confidential salary information, staff believes the Utility failed to adjust the test year salary and wage expense to exclude capitalized time spent on the instant docket.

In its MFRs, Sanlando originally estimated $95,000 in expense for in-house staff fees. The Utility provided updates of actual and estimated rate case expense through December 31, 2014. The Utility reflected $40,660 of actual expense for in-house staff and estimated expense to completion of $3,040, totaling $43,700. In support of the actual expense, the Utility also provided a breakdown of the work performed by each employee including hours and descriptions.

The total employee compensation reflected in the Utility's confidential salary information did not include an adjustment that corresponded to the amount of in-house employee expense estimated by the Utility in its MFRs. The total employee compensation prior to any allocation reflected a full year of salaries and wages for each employee. Further, the Utility stated that in-house employees did not incur any overtime or bonuses for their work in the instant docket.

As such, staff believes the entire amount of WSC in-house staff fees should be removed from rate case expense. The job duties and descriptions of the in-house employees that comprise this expense include rate case related functions. Thus, this expense is appropriately reflected in the Utility's salaries and wages expense. Therefore, staff recommends that the $43,700 related to in-house staff fees be removed from rate case expense.

Filing Fee

The Utility included $4,000 in its MFR Schedule B-10 for the filing fee. There was no other mention of the $4,000 filing fee in the Utility's revised actual and estimate to complete. Staff notes that according to documentation provided by F&F, the actual filing fee of $9,000 was paid as part of the legal fees. As such, the filing fee is addressed in staff's legal fees recommendation above and should be removed from the filing fee line item.

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[36] Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

[37] Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

WSC Travel Expense

In its MFRs, Sanlando estimated $1,000 for travel expenses. The Utility provided no support documentation for this expense, or a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, staff recommends that $1,000 of rate case expense associated with WSC Travel Expense be removed.

WSC FedEx Expense

The final adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The Utility estimated $100 of FedEx and other miscellaneous costs in its initial filing, but did not provide any support of these expenses. Based on the lack of support documentation, staff recommends that rate case expense be decreased by $100.

Customer Notices and Postage

In its revised rate case expense schedule, Sanlando reflected estimated costs of $5,000 for customer noticing and postage. The Utility is responsible for sending out four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. No notices were combined in this docket. The Utility did not provide any invoices reflecting the actual cost associated with sending the interim notice, the initial notice, or the customer meeting notice.

The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.[38] Had the Utility not missed the mailing deadline for the original customer meeting, there would have been a combined initial and customer meeting notice. Because of the missed notice, there were additional costs related to mailing separate notices that should be removed. As such, costs related to the number of envelopes used and postage required reflect those of a combined notice. The estimated cost of postage for the interim notice, initial notice, customer notice, and the final notice is approximately $12,099 (11,827 customers x $0.341 pre-sorted rate x 3 notices), the cost of copies is approximately $13,010 (11,827 customers x $0.10 per copy x 11 total pages), and the cost of envelopes is approximately $1,774 (11,827 customers x $0.05 x 3 notices). Based on these components, staff believes the total cost for these notices and postage is $26,883 ($12,099 + $13,010 + $1,774). As such, rate case expense should be increased by $21,883 ($26,883 - $5,000) to allow for adequate expenses related to mailing notices in accordance with Rule 25-22.0407, F.A.C.

[38] Order No. PSC-14-0025-PAA-WS.

Additional Rate Case Expense

In addition to the rate case expense provided by the Utility, the Commission found in the Utilities, Inc., generic docket "that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiaries' ERCs to UI's total Florida ERCs as of December 31, 2013."[39] The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Recovery of this expense should be included as a separate line item within rate case expense as part of each subsidiaries' next file and suspend rate case, limited proceeding, or staff-assisted rate case. Sanlando's portion of rate case expense from that docket is $43,798, or $10,950 on an annual basis.[40]

Conclusion

Based upon the adjustments discussed above, staff recommends that Sanlando's revised rate case expense of $173,912 be increased by $7,030, to reflect staff's adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of $180,942. A breakdown of staff's recommended rate case expense is as follows:

Table 15-3

| Staff-Recommended Rate Case Expense | | | | |
|---|---|---|---|---|
| Description | MFR Estimated | Utility Revised Act.& Est. | Staff Adj. | Recom. Total |
| Legal Fees | $53,000 | $44,337 | ($5,700) | $38,636 |
| Accounting Consultant Fees | 66,000 | 72,588 | (4,150) | 68,438 |
| Engineering Consultant Fees | 3,000 | 3,188 | 0 | 3,188 |
| WSC In-House Fees | 95,000 | 43,700 | (43,700) | 0 |
| Filing Fee | 4,000 | 4,000 | (4,000) | 0 |
| WSC Travel | 1,000 | 1,000 | (1,000) | 0 |
| WSC FedEx/Misc. | 100 | 100 | (100) | 0 |
| Cust. Notices and Postage | 5,000 | 5,000 | 21,883 | 26,883 |
| Total | $227,100 | $173,912 | ($36,768) | $137,144 |
| Add'l RCE – Generic Dkt. | | | | $43,798 |
| Total w/Add'l RCE | | | | $180,942 |

In its MFRs, the Utility requested total rate case expense of $227,100. When amortized over four years, this represents an annual expense of $56,775. Pursuant to Section 367.081(6), F.S., the recommended total rate case expense of $180,942 should be amortized over four years. This represents an annual expense of $45,236. Based on the above, staff recommends that rate

[39] Order No. PSC-14-0521-FOF-WS, p. 19.
[40] Id.

 

case expense be decreased by $46,158 ($227,100 – $180,942). As a result, annual rate case expense should be decreased by $6,449 for water and $5,090 for wastewater from the respective levels of expense included in the MFRs

**Issue 16**: Should further adjustments be made to taxes other than income?

**Recommendation**: Yes. Property taxes should be increased by $449 for water and decreased by $1,868 for wastewater. In addition, Regulatory Assessment Fees (RAFs) should be increased by $1,927 for water and decreased by $869 for wastewater. (D. Buys)

**Staff Analysis**: In its MFRs, Sanlando included water and wastewater property tax expense of $170,612 and $253,030, respectively, for the test year ended December 31, 2013. On February 11, 2015, the Utility filed with the Commission a letter requesting to include additional property tax expense of $63,371 in the instant rate case to recover the increase in property tax from 2013 to 2014. The total amount of property tax increased from $361,074 in 2013 to $424,446 in 2014. Staff compared the property tax assessments from 2013 and 2014 and believes the primary cause for the increase in property tax is an increase in the assessed value due to plant additions. The amount of property tax included in Sanlando's MFRs includes adjustments for its pro forma plant additions. The total amount of property tax requested in the Utility's MFRs is $423,642. Staff recommends that the property tax expense be increased by $804 ($424,446 - $423,642), or $449 for water and $355 for wastewater to account for the increase in property tax from 2013 to 2014.

In addition, a 9.94 acre parcel of land that contained three percolation ponds used in the Des Pinar WWTP is no longer used to provide service to customers since the Des Pinar WWTP was retired. The property taxes levied against this parcel was $2,223 in 2014, and should be removed from wastewater property tax expense. Therefore, staff recommends that property tax expense be decreased by $2,223 for wastewater.

In its MFRs, the Utility included water and wastewater regulatory assessment fees of $181,494, and $175,850, respectively, for the test year ended December 31, 2013. As part of staff's audit of Sanlando, audit staff calculated the RAFs based on actual 2013 revenues and determined that water RAFs are understated by $1,927 and the wastewater RAFs are overstated by $869. The results are provided in Audit Finding No. 18 of the Auditor's Report dated October 18, 2014. In its response to the findings in the Staff Audit Report, the Utility stated that it disagreed with the audit finding but did not provide a reason for its disagreement. Staff reviewed the Audit Report and recommends that water RAFs be increased by $1,927 and wastewater RAFs be decreased by $869.

<u>Conclusion</u>

Staff recommends that property taxes be increased by $449 for water and decreased by $1,868 for wastewater to reflect the known and measureable change to the Utility's property taxes. In addition, RAFs should be increased by $1,927 for water and decreased by $869 for wastewater.

**REVENUE REQUIREMENT**

**Issue 17**: What is the appropriate revenue requirement for the test year ended December 31, 2013?

**Recommendation**: Staff recommends the following revenue requirement should be approved.

| | Test Year Revenue | $ Increase/ (Decrease) | Revenue Requirement | % Increase/ (Decrease) |
|---|---|---|---|---|
| Water | $4,115,972 | ($250,461) | $3,865,511 | (6.09%) |
| Wastewater | $3,905,490 | $748,919 | $4,654,409 | 19.18% |

(D. Buys)

**Staff Analysis**: In its filing, Sanlando requested revenue requirements to generate annual revenue of $4,823,551 for water and $4,473,063 for wastewater. These requested revenue requirements represent revenue increases of $654,796, or approximately 15.70 percent, for water, and $537,442, or approximately 13.66 percent, for wastewater.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of $3,865,511, and a wastewater revenue requirement of $4,654,409. Staff's recommended water revenue requirement of $3,865,511 is $250,461 less than staff's adjusted test year revenue of $4,654,409 or a decrease of 6.09 percent. Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by $748,919, or 19.18 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 7.94 percent return on its investment in water and wastewater rate base.

**<u>RATE STRUCTURE AND RATES</u>**

**<u>Issue 18</u>**: What are the appropriate rate structures and rates for Sanlando's water and wastewater systems?

**<u>Recommendation</u>**: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D, 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 ten days of the date of the notice. (Thompson)

**<u>Staff Analysis</u>**:
**Water Rates**

Sanlando is located in Seminole County within the St. Johns River Water Management District (SJRWMD). Although the Utility's average residential consumption is relatively high, Sanlando's water withdrawals are within the limits prescribed by its consumptive use permit. The Utility provides water service to approximately 10,172 customers. Only about 3 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 15,694 gallons per month. The average residential water demand, excluding zero gallon bills, is 15,154 gallons per month.

The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and four-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-10,000 gallons; (3) 10,001-15,000 gallons; and (4) all usage in excess of 15,000 gallons per month. General service customers are billed a BFC and uniform gallonage charge. The private fire protection customers are billed one-twelfth of the approved BFC, pursuant to Rule 25-30.465, F.A.C.

Staff performed an analysis of the Utility's billing data in order to evaluate 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; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Revenue Allocation

In the Utility's last three rate cases, a portion of the wastewater revenue requirement was allocated to the water system, pursuant to Section 367.0817(3), F.S., which provides that a utility may recover the cost of providing reuse to water, wastewater, and reuse customers.[41] In those prior cases, several criteria were considered in determining the amount of revenues associated with the cost of the Utility's reuse system to allocate to the water system in order to design an aggressive conservation oriented rate structure to help mitigate the high average residential water demand.

Consistent with the prior rate cases, staff recommends that a portion of the wastewater revenue requirement be allocated to the water system. At a minimum, sufficient revenues should be allocated to the water system from the wastewater revenue requirement to avoid a reduction to the Utility's existing water rates. While Schedule 3-A indicates a 6.09 percent revenue reduction for the water system, it should be noted that the test year revenues were based on water rates that included the $625,000 allocation of wastewater revenues to the water revenue requirement approved in the Utility's last rate case. If $625,000 of the current wastewater revenue requirement is allocated to the water system, the resulting increases to the water and wastewater revenue requirements would be 9.17 percent and 3.18 percent, respectively.

Determining the additional costs the utility incurred in treating wastewater to reuse standards is difficult because the treatment process includes assets and operating expenses that are needed whether or not the wastewater is treated to reuse standards. Filters, storage facilities, and reuse transmission and distribution facilities, as well as additional chemicals, electricity, and operator time are necessary to treat the wastewater and deliver it to reuse customers. Staff believes that $625,000 is representative of the costs associated with treating the Utility's wastewater to reuse standards. Therefore, due to the Utility's high average monthly consumption per residential customer, low rates, and the need to send stronger price signals to achieve conservation, staff recommends that $625,000 of the wastewater system revenue requirement be shifted to the water system.

Water Rate Structure

Currently, the Utility's BFC generates approximately 24 percent of the total water revenues. In order to design a rate structure that continues to promote water conservation, the current BFC should remain the same and all of the revenue increase should be allocated to the gallonage charges. As a result, approximately 21.6 percent of the staff recommended revenue requirement would be allocated to the BFC.

[41] Order No. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and Order No. PSC-07-0535-AS-WS, issued June 26, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.

In addition, staff recommends that the current four-tier gallonage charge for residential water customers be changed to a three-tier gallonage charge. While the first tier is typically designed to reflect the non-discretionary residential demand based on average household size, the Utility's service area is very diverse, making it difficult to identify the average non-discretionary demand. Therefore, staff recommends that the first tier include 6,000 gallons, consistent with the current rate structure. Approximately 37 percent of the residential customer bills during the test year reflected less than 6,000 gallons per month. In order to design a rate structure that reflects a more significant rate increase for demand in excess of the first 6,000 gallons of water per month, staff recommends that the current second and third tiers be collapsed into a single second tier that includes 6,001 to 15,000 gallons. The resulting third tier would include demand in excess of 15,000 gallons per month. Approximately 36 percent of the residential customer bills during the test year exceeded 15,000 gallons per month. The second and third tier gallonage charges should be 1.5 and 2.5 times the first tier gallonage charge, respectively. This rate structure has the effect of minimizing the price increase for those residential customers whose monthly consumption is 6,000 gallons or less. General service customers should be billed a BFC and uniform gallonage charge.

Based on a recommended revenue shift of $625,000 from the wastewater system and the resulting revenue increase for water customers of approximately 9.1 percent, the residential consumption can be expected to decline by 72,498,000 gallons resulting in anticipated average residential demand of 15,054 gallons per month or a 6 percent reduction in total residential consumption. This results in reductions of $10,769 for purchased power, $40 for purchased water, $4,270 for chemicals, and $710 for RAFs to reflect the anticipated repression. The post repression revenue requirement will be $4,441,245.

Private Fire Protection

Although the Utility's approved tariff for private fire protection reflects monthly billing, the current charge is billed annually. The Utility stated that the annual billing provides a convenience for the customer in that they only have to pay for the service once a year. Staff believes it is reasonable to bill this customer type on an annual basis. Staff therefore, recommends that the private fire protection service continue to be billed annually based on one-twelfth of the approved BFC, pursuant to Rule 25-30.465, F.A.C.

Water Summary

Staff recommends that $625,000 of the wastewater revenue requirement be shifted to the water system, resulting in a 9.1 percent increase in the water revenue requirement over the test year revenues. In addition, a BFC based on 21.6 percent of the water revenue requirement should be approved. A three-tier gallonage charge should be approved for residential water customers based on anticipated repression of 6 percent. A uniform gallonage charge should be approved for general service water customers. Furthermore, private fire protection customers should be billed annually based on one-twelfth of the approved BFC for the appropriate meter size. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-A and 4-B.

**Wastewater Rates**

Sanlando provides wastewater service to approximately 8,428 customers. The Utility also provides reuse service to several bulk and residential customers. Currently, the residential wastewater rate structure consists of a BFC for all meter sizes and a uniform gallonage charge with a 10,000 gallon cap per month. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. In addition, the Utility provides bulk wastewater service to Seminole County for approximately 1,379 units that receive water service from the County. Sanlando bills the County a flat rate per unit.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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.

Wastewater Rate Structure

The Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. Staff recommends a continuation of the current BFC and uniform gallonage charge rate structure for the wastewater system, with the BFC based on an allocation of 50 percent of the wastewater revenue requirement less the $625,000 revenue shift to the water revenue requirement. The monthly residential wastewater gallonage cap for billed consumption should continue at 10,000 gallons and the general service gallonage charge should be 1.2 times greater than the residential gallonage charge consistent with Commission practice.

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 a repression adjustment be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends a repression adjustment of 12,754,333 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. This results in a 1.76 percent reduction in total residential consumption and corresponding reductions of $8,007 for purchased power, $2,972 for chemicals, $2,203 for sludge removal, and $593 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $3,986,610. The residential wastewater gallonage cap of 10,000 gallons should remain unchanged and the general service gallonage charge should be 1.2 times greater than the residential gallonage charge, consistent with Commission practice.

Seminole County

In a letter dated August 20, 2014, Seminole County expressed a desire to change from a flat rate per unit to metered rates based on wastewater flows. In a subsequent letter the County estimated that it pays nearly four times the charges for wastewater than it would pay if it were charged a bulk volumetric rate. In order for Sanlando to bill based on wastewater flows, Seminole County would need to install wastewater flow meters. Alternatively, staff considered whether the Utility would be able to bill the County based on those customers' water demand. The Utility stated that it is unaware if Seminole County would be willing to provide the water demand data on a monthly basis or if there would be a cost associated with doing so. The County provided staff with 12 months of usage data for their water customers who receive wastewater service through the County's bulk service agreement with Sanlando.

During the test year, the County was billed $446,038 for bulk wastewater service. The County believes that a rate restructuring should result in the County paying approximately $300,000 per year less for bulk wastewater service. Based on staff's review of the water demand information provided by the County, staff determined the approximate demand that the County's customers place on the wastewater system. In order to generate the appropriate revenues needed to recover the costs associated with the County's demand on the wastewater system, the gallonage charge portion of the rate structure would be higher than a gallonage charge based on wastewater flows.

Therefore, staff recommends a continuation of the flat rate per unit for the County; however, staff recommends that the flat rate be adjusted to reflect current average demand for the residential and general service customers based on information provided to staff in this docket. As a result, the County would be billed approximately $384,843 per year, assuming the number of County wastewater customers remains constant. Staff also recommends a separate flat rate for the residential and general service customers based on the average water demand of the respective customer class.

Reuse

The Utility provides reuse at no charge to several bulk reuse customers. In addition, the Utility provides reuse to approximately 100 residential customers. The current reuse rate for those residential customers includes a BFC of $4.50 and a gallonage charge of $.45 per 1,000. Reuse rates are typically market based rather than cost based. This provides an incentive to encourage customers to use the reuse. In addition, there are cost savings associated with providing reuse to customers rather than treating the wastewater further in order to dispose of it in percolation ponds or through spray irrigation. Staff conducted a review of reuse rates charged throughout Seminole County and determined that the Utility's current rates are relatively low compared to other reuse rates in the County. Therefore, staff recommends an across-the-board increase of 3.18 percent to current reuse rates commensurate with the overall recommended increase in wastewater rates.

Wastewater Summary

Staff recommends that $625,000 of the wastewater revenue requirement be shifted to the water system, resulting in a 3.18 percent increase in the wastewater revenue requirement over the test year revenues. In addition, a BFC based on 50 percent of the resulting revenue requirement and a uniform gallonage charge should be approved. The residential wastewater monthly gallonage cap should continue at 10,000 gallons and the general service gallonage charge should be set at 1.2 greater than the residential gallonage charge. Furthermore, an across-the-board increase of 3.18 percent should be approved for the reuse customers. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-C and 4-D.

Conclusion

Based on the foregoing, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. 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 ten days of the date of the notice.

**OTHER ISSUES**

**Issue 19**: In determining whether any portion of the interim water and wastewater revenue 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. The total net difference between the combined water and wastewater interim revenue requirements granted and the combined interim collection period revenue should be used because of the reallocation of wastewater revenues. No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. (D. Buys)

**Staff Analysis**: The Commission authorized Sanlando to collect interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of $4,270,819 represented an increase of $102,527 or 2.46 percent. The Utility did not request an interim revenue increase 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 that interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Sanlando'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 actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff calculated adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirements of $4,270,819 for water and $3,935,620 for wastewater, granted in Order PSC-14-0591-PCO-WS, issued October 22, 2014, are greater than the final revenue requirement for water by 9.88 percent and less than the final revenue requirement for wastewater by 18.05 percent. This would result in a 9.88 percent water refund and no refund for wastewater.

However, as stated in Issue 18, staff is recommending that wastewater revenues of $625,000 related to the Utility's reuse system be shifted and reallocated to the water system. Because of the reallocation of these revenues, staff recommends using Sanlando's total company revenue requirement for determining whether an interim refund is warranted. This methodology is consistent with the Commission's decision in the Utility's last two rate cases.[42] No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted.

[42] Order No. PSC-13-0085-PAA-WS, pp. 29-30 and Order No. PSC-10-0423-PAA-WS, pp. 30-31.

**Issue 20**: 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 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 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. Sanlando 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. (Thompson, T. Brown)

**Staff Analysis**: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year amortization 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 reduction is $30,361 for water and $23,962 for wastewater. Using Sanlando's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-B and 4-D.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Sanlando should also be required to file a proposed customer notice setting forth the lower rates and the reason for the 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 21**: 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 National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sanlando should provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. (Frank)

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

The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. All support documentation should follow the guidelines set forth in Rule 25-30.450, F.A.C., which states:

> In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

**Issue 22**: 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. (Young)

**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.

**Sanlando Utilities Corporation** | **Schedule No. 1-A**
**Schedule of Water Rate Base** | **Docket No. 140060-WS**
**Test Year Ended 12/31/13**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year |
|---|---|---|---|---|---|---|
| 1 | Plant in Service | $26,039,977 | ($1,497,684) | $24,542,293 | ($657,328) | $23,884,965 |
| 2 | Land and Land Rights | 97,286 | (18) | 97,268 | 0 | 97,268 |
| 3 | Accumulated Depreciation | (15,022,215) | 1,146,809 | (13,875,406) | 352,845 | (13,522,561) |
| 4 | CIAC | (11,147,950) | (463) | (11,148,413) | 1,298,924 | (9,849,489) |
| 5 | Amortization of CIAC | 8,755,443 | 0 | 8,755,443 | (820,695) | 7,934,748 |
| 6 | Construction Work in Progress | 174,744 | (174,744) | 0 | 0 | 0 |
| 7 | Working Capital Allowance | 0 | 164,019 | 164,019 | 47,237 | 211,256 |
| 8 | **Rate Base** | $8,897,285 | ($362,081) | $8,535,204 | $220,983 | $8,756,187 |

**Sanlando Utilities Corporation**
**Schedule of Wastewater Rate Base**
**Test Year Ended 12/31/13**

**Schedule No. 1-B**
**Docket No. 140060-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year |
|---|---|---|---|---|---|---|
| 1 | Plant in Service | $27,282,234 | $4,818,824 | $32,101,058 | ($379,560) | $31,721,498 |
| 2 | Land and Land Rights | 203,894 | -14 | 203,880 | 0 | 203,880 |
| 3 | Accumulated Depreciation | (15,335,542) | (948,640) | (16,284,182) | 11,377 | (16,272,805) |
| 4 | CIAC | (11,976,178) | (420) | (11,976,598) | 68,564 | (11,908,034) |
| 5 | Amortization of CIAC | 10,603,129 | 0 | 10,603,129 | (552,391) | 10,050,738 |
| 6 | Construction Work in Progress | 1,792,058 | (1,792,058) | 0 | 0 | 0 |
| 7 | Working Capital Allowance | 0 | 215,575 | 215,575 | 40,312 | 255,887 |
| 8 | **Rate Base** | $12,569,595 | $2,293,267 | $14,862,862 | ($811,698) | $14,051,164 |

 

**Sanlando Utilities Corporation** **Schedule No. 1-C**
**Adjustments to Rate Base** **Docket No. 140060-WS**
**Test Year Ended 12/31/13**

| | **Explanation** | **Water** | **Wastewater** |
|---|---|---|---|
| | Plant In Service | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | ($581,651) | ($292,605) |
| 2 | Reflect appropriate adjustments for Phoenix Project. (Issue 3) | 0 | 0 |
| 3 | Test year plant adjustments (Issue 4) | (112,706) | (27,535) |
| 4 | Reflect the appropriate pro forma plant. (Issue 5) | 37,029 | (59,420) |
| | Total | ($657,328) | ($379,560) |
| | Accumulated Depreciation | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | $508,937 | $355,773 |
| 2 | Reflect appropriate adjustments for Pheonix Project. (Issue 3) | (26,326) | 20,777 |
| 3 | Test year plant adjustments. (Issue 4) | (126,680) | (115,219) |
| 4 | Reflect the appropriate pro forma accumulated depreciation. (Issue 5) | (3,086) | (249,954) |
| | Total | $352,845 | $11,377 |
| | | - | - |
| | CIAC | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | $1,314,307 | $68,564 |
| 2 | Test year plant adjustments. (Issue 4) | (15,383) | 0 |
| | Total | $1,298,924 | $68,564 |
| | | - | - |
| | Accumulated Amortization of CIAC | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | ($802,859) | ($527,529) |
| 2 | Test year plant adjustments. (Issue 4) | (17,836) | (24,862) |
| | Total | ($820,695) | ($552,391) |
| | | - | - |
| | Working Capital | - | - |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | $27,695 | $21,854 |
| 2 | Reflect appropriate adjustments for Pheonix Project. (Issue 3) | 2,496 | 1,948 |
| 3 | Reflect appropriate working capital allowance per Rule 25-30.433, F.A.C. (Issue 7) | 17,046 | 16,510 |
| | Total | $47,237 | $40,312 |

**Sanlando Utilities Corporation** **Schedule No. 2**
**Capital Structure-Simple Average** **Docket No. 140060-WS**
**Test Year Ended 12/31/13**

| | Description | Total Capital | Specific Adjust-ments | Subtotal Adjusted Capital | Prorata Adjust-ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost |
|---|---|---|---|---|---|---|---|---|---|
| **Per Utility** | | | | | | | | | |
| 1 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($168,894,856) | $11,105,144 | 47.46% | 6.64% | 3.15% |
| 2 | Short-term Debt | 9,315,385 | 0 | 9,315,385 | (8,740,943) | 574,442 | 2.46% | 2.82% | 0.07% |
| 3 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | 170,208,617 | 0 | 170,208,617 | (159,708,965) | 10,499,652 | 44.87% | 10.53% | 4.73% |
| 5 | Customer Deposits | 49,549 | 0 | 49,549 | 0 | 49,549 | 0.21% | 6.00% | 0.01% |
| 6 | Deferred Income Taxes | 1,169,279 | 0 | 1,169,279 | 0 | 1,169,279 | 5.00% | 0.00% | 0.00% |
| 7 | **Total Capital** | $360,742,830 | $0 | $360,742,830 | ($337,344,764) | $23,398,066 | 100.00% | | 7.96% |
| **Per Staff** | | | | | | | | | |
| 8 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($169,190,737) | $10,809,263 | 47.41% | 6.64% | 3.15% |
| 9 | Short-term Debt | 9,315,385 | 0 | 9,315,385 | (8,755,983) | 559,402 | 2.45% | 2.82% | 0.07% |
| 10 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 11 | Common Equity | 170,208,617 | 0 | 170,208,617 | (159,987,341) | 10,221,276 | 44.83% | 10.53% | 4.72% |
| 12 | Customer Deposits | 49,549 | 0 | 49,549 | 0 | 49,549 | 0.22% | 2.00% | 0.00% |
| 13 | Deferred Income Taxes | 1,169,279 | (7,254) | 1,162,025 | 0 | 1,162,025 | 5.10% | 0.00% | 0.00% |
| 14 | **Total Capital** | $360,742,830 | ($7,254) | $360,735,576 | ($337,934,061) | $22,801,515 | 100.00% | | 7.94% |

| | LOW | HIGH |
|---|---|---|
| RETURN ON EQUITY | 9.53% | 11.53% |
| OVERALL RATE OF RETURN | 7.49% | 8.39% |

**Sanlando Utilities Corporation**
**Statement of Water Operations**
**Test Year Ended 12/31/13**

**Schedule No. 3-A**
**Docket No. 140060-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
|---|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues:** | $4,076,016 | $747,535 | $4,823,551 | ($707,579) | $4,115,972 | ($250,461) | $3,865,511 |
| | | | | | | | -6.09% | |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $2,054,858 | $12,890 | $2,067,748 | ($31,670) | $2,036,078 | $0 | $2,036,078 |
| 3 | Depreciation | 911,369 | (3,903) | 907,466 | (19,487) | 887,979 | 0 | 887,979 |
| 4 | Amortization | 0 | 0 | 0 | (416,853) | (416,853) | 0 | (416,853) |
| 5 | Taxes Other Than Income | 478,042 | (16,637) | 461,405 | (36,636) | 424,769 | (11,271) | 413,499 |
| 6 | Income Taxes | 380,867 | 36,995 | 417,862 | (78,464) | 339,398 | (90,007) | 249,390 |
| 7 | **Total Operating Expense** | 3,825,136 | 29,345 | 3,854,481 | (583,110) | 3,271,371 | (101,278) | 3,170,093 |
| 8 | **Operating Income** | $250,880 | $718,190 | $969,070 | ($124,469) | $844,601 | ($149,183) | $695,419 |
| 9 | **Rate Base** | $8,897,285 | | $8,535,204 | | $8,756,187 | | $8,756,187 |
| 10 | **Rate of Return** | 2.82% | | 11.35% | | 9.65% | | 7.94% |

**Sanlando Utilities Corporation**
**Statement of Wastewater Operations**
**Test Year Ended 12/31/13**

**Schedule No. 3-B**
**Docket No. 140060-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
|---|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues:** | $3,888,457 | $584,605 | $4,473,062 | ($567,572) | $3,905,490 | $748,919 | $4,654,409 |
| | | | | | | | 19.18% | |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $2,009,026 | $9,667 | $2,018,693 | ($42,022) | $1,976,671 | $0 | $1,976,671 |
| 3 | Depreciation | 538,829 | 257,934 | 796,763 | 152,576 | 949,339 | 0 | 949,339 |
| 4 | Amortization | 0 | 0 | 0 | (295,310) | (295,310) | 0 | (295,310) |
| 5 | Taxes Other Than Income | 384,902 | 129,786 | 514,688 | (40,827) | 473,861 | 33,701 | 507,562 |
| 6 | Income Taxes | 39 | 249,466 | 249,505 | (118,442) | 131,063 | 269,136 | 400,200 |
| 7 | **Total Operating Expense** | 2,932,796 | 646,853 | 3,579,649 | (344,025) | 3,235,624 | 302,838 | 3,538,462 |
| 8 | **Operating Income** | $955,661 | ($62,248) | $893,413 | ($223,547) | $669,866 | $446,081 | $1,115,947 |
| 9 | **Rate Base** | $12,569,595 | | $14,862,862 | | $14,051,164 | | $14,051,164 |
| 10 | **Rate of Return** | 7.60% | | 6.01% | | 4.77% | | 7.94% |

**Sanlando Utilities Corporation** | **Schedule No. 3-C**
**Adjustment to Operating Income** | **Docket No. 140060-WS**
**Test Year Ended 12/31/13**

| | Explanation | Water | Wastewater |
|---|---|---|---|
| | Operating Revenues | | |
| 1 | Remove requested final revenue increase | ($654,796) | ($537,442) |
| 2 | To reflect the appropriate amount of annualized revenues. | (52,783) | (30,130) |
| | Total | ($707,579) | ($567,572) |
| | | | |
| | Operation and Maintenance Expense | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | ($53,488) | ($14,397) |
| 2 | Reflect appropriate amount for Salaries, Wages, Pensions and Benefits. (Issue 13) | (5,794) | (4,573) |
| 3 | Reflect appropriate amount of operating expense. (Issue 14) | 34,060 | (91,693) |
| 4 | Reflect pro forma operating expense. (Issue 12) | 0 | 73,731 |
| 5 | Reflect the appropriate rate case expense. (Issue 15) | (6,449) | (5,090) |
| | Total | ($31,670) | ($42,022) |
| | | | |
| | Depreciation Expense | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | ($11,741) | ($24,434) |
| 2 | Reflect appropriate depreciation expense for Project Phoenix. (Issue 3) | (26,326) | (20,777) |
| 3 | Reflect appropriate test year plant adjustments. (Issue 4) | 15,494 | 212,775 |
| 4 | Reflect corresponding adjustments for pro forma plant. (Issue 5) | 3,086 | (14,988) |
| | Total | ($19,487) | $152,576 |
| | | | |
| | Amortization - Other Expense | | |
| 1 | Reflect audit adjustments agreed to by Utility and staff. (Issue 2) | ($161,182) | ($139,245) |
| 2 | Reflect revenue impact of regulatory asset for Project Phoenix (Issue 3) | 832 | 649 |
| 3 | Reflect appropriate test year plant adjustments. (Issue 4) | (256,503) | (159,012) |
| 4 | Reflect additional pr0 forma cost to retire Des Pinar WWTP. (Issue 5) | 0 | 2,298 |
| | Total | ($416,853) | ($295,310) |
| | | | |
| | Taxes Other Than Income | | |
| 1 | RAFs on revenue adjustments above. | ($31,841) | ($25,541) |
| 2 | Reflect audit adjustments agreed to by Utility and staff for payroll taxes. (Issue 2) | (7,698) | (6,017) |
| 3 | Reflect the appropriate pro forma property taxes. (Issue 5) | 527 | (6,532) |
| 4 | Reflect increase in property taxes for 2014. (Issue 16) | 449 | (1,868) |
| 5 | Audit Finding 18 - reflect appropriate amount of RAFs. (Issue 16) | 1,927 | (869) |
| | Total | ($36,636) | ($40,827) |

| SANLANDO UTILITIES CORPORATION<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WATER RATE STRUCTURES AND RATES | | | | |
|---|---|---|---|---|
| Test Year Rate Structure and Rates | | | Recommended Rate Structure and Rates | |
| Monthly BFC/4-Tier Inclining Block Rate Structure<br>BFC generated from current rates = 24% | | | $625,000 Revenue Shift<br>Monthly BFC/3-Tier Inclining Block Rate Structure<br>BFC = 21.6% | |
| BFC | $4.45 | | BFC | $4.45 |
| 0-6 kgals | $0.88 | | 0-6 kgals | $0.93 |
| 6-10 kgals | $0.96 | | 6-15 kgals | $1.39 |
| 10-15 kgals | $1.44 | | 15+ kgals | $2.32 |
| 15+ kgals | $1.91 | | | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $4.45 | | 0 | $4.45 |
| 6 | $9.73 | | 6 | $10.03 |
| 10 | $13.57 | | 10 | $15.59 |
| 15 | $20.77 | | 15 | $22.54 |
| 20 | $30.32 | | 20 | $34.14 |
| 30 | $44.97 | | 30 | $57.34 |
| Alternative 1 Rate Structure and Rates | | | Alternative 2 Rate Structure and Rates | |
| $550,000 Revenue Shift<br>Monthly BFC/3-Tier Inclining Block Rate Structure<br>BFC = 21.92% | | | $650,000 Revenue Shift<br>Monthly BFC/3-Tier Inclining Block Rate Structure<br>BFC =21.5% | |
| BFC | $4.45 | | BFC | $4.45 |
| 0-6 kgals | $0.89 | | 0-6 kgals | $0.94 |
| 6-15 kgals | $1.34 | | 6-15 kgals | $1.41 |
| 15+ kgals | $2.24 | | 15+ kgals | $2.34 |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $4.45 | | 0 | $4.45 |
| 6 | $9.79 | | 6 | $10.09 |
| 10 | $15.15 | | 10 | $15.73 |
| 15 | $21.85 | | 15 | $22.78 |
| 20 | $33.05 | | 20 | $34.48 |
| 30 | $54.59 | | 30 | $57.88 |

 

**SANLANDO UTILITIES CORPORATION** **SCHEDULE NO. 4-B**
**MONTHLY WATER RATES** **DOCKET NO. 140060-WS**
**TEST YEAR ENDED DECEMBER 31, 2013**

| | UTILITY CURRENT RATES (1) | COMMISSION APPROVED INTERIM | UTILITY REQUESTED FINAL | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
|---|---|---|---|---|---|
| **<u>Residential, Bulk, and General Service</u>** | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8"X3/4" | $4.45 | $4.56 | $5.20 | $4.45 | $0.09 |
| 3/4" | $6.69 | $6.86 | $7.80 | $6.68 | $0.13 |
| 1" | $11.14 | $11.42 | $13.00 | $11.13 | $0.22 |
| 1-1/2" | $22.29 | $22.84 | $26.00 | $22.25 | $0.44 |
| 2" | $36.66 | $37.57 | $41.60 | $35.60 | $0.70 |
| 3" | $71.31 | $73.08 | $78.00 | $71.20 | $1.39 |
| 4" | $111.43 | $114.19 | $130.00 | $111.25 | $2.18 |
| 6" | $222.85 | $228.38 | $260.00 | $222.50 | $4.36 |
| 8" | $401.60 | $411.56 | $416.00 | $356.00 | $6.97 |
| | | | | | |
| Charge per 1,000 Gallons - Residential | | | | | |
| 0-6,000 Gallons | $0.88 | $0.90 | $1.03 | $0.93 | $.02 |
| 6,001-10,000 Gallons | $0.96 | $0.98 | $1.12 | $1.39 | $.03 |
| 10,001-15,000 Gallons | $1.44 | $1.48 | $1.67 | $1.59 | $.03 |
| Over 15,000 Gallons | $1.91 | $1.96 | $2.22 | $2.32 | $.05 |
| | | | | | |
| Charge per 1,000 Gallons - Bulk, and General Service | $1.41 | $1.44 | $1.64 | $1.60 | $0.03 |
| | | | | | |
| **<u>Private Fire Protection</u>** | | | | | |
| 1-1/2" | $1.86 | $1.91 | $2.17 | $1.85 | $0.04 |
| 2" | $2.97 | $3.04 | $3.46 | $2.97 | $0.06 |
| 4" | $9.28 | $9.51 | $10.83 | $9.27 | $0.18 |
| 6" | $18.58 | $19.04 | $21.67 | $18.54 | $0.36 |
| 8" | $33.47 | $34.30 | $39.00 | $29.67 | $0.58 |
| | | | | | |
| **<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>** | | | | | |
| 6,000 Gallons | $9.73 | $9.96 | $11.38 | $10.03 | |
| 15,000 Gallons | $20.77 | $21.28 | $24.21 | $22.54 | |
| 20,000 Gallons | $30.32 | $31.08 | $35.31 | $34.14 | |

| SANLANDO UTILITIES CORPORATION<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WASTEWATER RATE STRUCTURES AND RATES | | | | |
|---|---|---|---|---|
| **Test Year Rate Structure and Rates** | | | **Recommended Rate Structure and Rates** | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC generated from current rates = 49.93% | | | $625,000 Revenue Shift<br>Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 50% | |
| BFC | $12.45 | | BFC | $14.61 |
| Per kgal | $1.99 | | Per kgal | $1.92 |
| (10 kgal cap) | | | (10 kgal cap) | |
| **Typical Monthly Bills** | | | **Typical Monthly Bills** | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $12.45 | | 0 | $14.61 |
| 1 | $14.44 | | 1 | $16.53 |
| 3 | $18.42 | | 3 | $20.37 |
| 6 | $24.39 | | 6 | $26.13 |
| 8 | $28.37 | | 8 | $29.97 |
| 10 | $32.35 | | 10 | $33.81 |
| **Alternative 1 Rate Structure and Rates** | | | **Alternative 2 Rate Structure and Rates** | |
| $550,000 Revenue Shift<br>Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 50% | | | $650,000 Revenue Shift<br>Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =50% | |
| BFC | $14.88 | | BFC | $14.52 |
| Per kgal | $1.88 | | Per kgal | $1.93 |
| (10 kgal cap) | | | (10 kgal cap) | |
| **Typical Monthly Bills** | | | **Typical Monthly Bills** | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $14.88 | | 0 | $14.52 |
| 1 | $16.76 | | 1 | $16.45 |
| 3 | $20.52 | | 3 | $20.31 |
| 6 | $26.16 | | 6 | $26.10 |
| 8 | $29.92 | | 8 | $29.96 |
| 10 | $33.68 | | 10 | $33.82 |

 

**SANLANDO UTILITIES CORPORATION**
**MONTHLY WASTEWATER RATES**
**TEST YEAR ENDED DECEMBER 31, 2013**

**SCHEDULE NO. 4-D**
**DOCKET NO. 140060-WS**

| | UTILITY CURRENT RATES (1) | UTILITY REQUESTED FINAL | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
|---|---|---|---|---|
| **Residential** | | | | |
| Base Facility Charge - All Meter Sizes | $12.45 | $14.21 | $14.61 | $2.48 |
| Charge per 1,000 Gallons | $1.99 | $2.27 | $1.92 | $0.33 |
| *10,000 gallon cap | | | | |
| Flat Rate | $26.35 | $30.06 | $21.57 | $3.66 |
| **Residential Reuse** | | | | |
| Base Facility Charge - All Meter Sizes | $4.50 | $5.13 | $4.64 | $0.79 |
| Charge per 1,000 Gallons | $0.45 | $0.51 | $0.46 | $0.08 |
| **General Service** | | | | |
| Base Facility Charge by Meter Size: | | | | |
| 5/8"X3/4" | $12.45 | $14.21 | $14.61 | $2.48 |
| 3/4" | $18.70 | $21.32 | $21.92 | $3.72 |
| 1" | $31.15 | $35.53 | $36.53 | $6.19 |
| 1-1/2" | $62.28 | $71.05 | $73.05 | $12.39 |
| 2" | $99.67 | $113.68 | $116.88 | $19.82 |
| 3" | $199.33 | $213.15 | $233.76 | $39.64 |
| 4" | $311.45 | $355.25 | $365.25 | $61.94 |
| 6" | $622.89 | $710.50 | $730.50 | $123.88 |
| 8" | $1,121.97 | $1,136.80 | $1,168.80 | $198.20 |
| Charge per 1,000 Gallons | $2.38 | $2.71 | $2.30 | $0.39 |
| Flat Rate | $26.35 | $30.06 | $25.79 | $4.37 |
| **Typical Residential 5/8" x 3/4" Meter Bill Comparison** | | | | |
| 6,000 Gallons | $24.39 | $27.83 | $26.13 | |
| 10,000 Gallons | $32.35 | $36.91 | $33.81 | |
| 15,000 Gallons | $32.35 | $36.91 | $33.81 | |

# Item 5

**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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (P. Buys, Hill, King, Rieger)
Division of Accounting and Finance (T. Brown, Fletcher, Galloway, Polk, Smith, Trueblood)
Division of Economics (Bruce, Hudson)
Office of the General Counsel (Mapp, Crawford)

**RE:** Docket No. 140135-WS – Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

**AGENDA:** 05/05/15 – Regular Agenda - Proposed Agency Action, except Issues 18 and 19 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 5-Month Effective Date Waived Through 05/05/15

**SPECIAL INSTRUCTIONS:** None

TABLE OF CONTENTS

## Case Background

Labrador Utilities, Inc. (Labrador or Utility) is a Class B utility providing water and wastewater services to approximately 862 water and 859 wastewater customers in Pasco County. Water and wastewater rates were last established for this Utility in its 2011 rate case.[1]

On September 15, 2014, Labrador filed its application for the rate increase in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On November 17, 2014, Labrador provided corrections to its MFRs, but the MFRs were still deficient. On December 2, 2014, Labrador filed additional corrections and the MFRs were determined to be complete. Therefore, the official filing date was established as December 2, 2014. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for final rates is the simple-average period ended December 31, 2013. The Utility requested final revenue increases of $97,036 (37.03 percent) for water and $287,175 (70.71 percent) for wastewater.

By Order No. PSC-14-0695-PCO-WS, issued December 15, 2014 (Interim Order), the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statues (F.S.). The approved interim revenue requirement for water was $301,102, which represents an increase of $34,665 or 13.01 percent. The approved interim revenue requirement for wastewater was $493,223, which represents an increase of $83,096 or 20.26 percent.

The five-month statutory deadline for the Commission to vote on the Utility's final rates was May 1, 2015. However, by letter dated December 11, 2014, the Utility agreed to extend the time to the May 5, 2015 Commission Conference.

The Office of Public Counsel (OPC) is actively monitoring this docket and provided a letter of concerns and issues on October 16, 2014. Forest Lake Estate Co-op, Inc. (Co-op), who is also monitoring the docket, provided consumer comments, complaints, and responses to a questionnaire that was developed by the Co-op, concerning water and wastewater services on March 20 and 24, and April 8, 2015.

This recommendation addresses Labrador's request for final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

[1] Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

## Discussion of Issues

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

**Recommendation**: Labrador has not made sufficient efforts to engage its customers to discuss and resolve their continuing dissatisfaction with the quality of the water since its last rate case. Therefore, staff recommends that the overall quality of service provided by Labrador should be considered satisfactory for the wastewater services, and marginal for water services provided to customers. In addition, staff recommends a reduction in the return on equity (ROE) for its water treatment plant and facilities of 25 basis points. (Hill)

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

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

Labrador's service area is located in Zephyrhills, Florida, in Pasco County. The raw water source is ground water, which is obtained from two wells in the service area and is treated with liquid chlorine for disinfection and a sequestration chemical for iron control. The wastewater treatment plant (WWTP) uses extended aeration to treat the wastewater. The treated effluent is disposed of on a 34.7 acre slow-rate restricted access spray field. Recent plant modifications have been made to reduce odors emanating from the WWTP. These modifications are described in Issue 4.

Staff reviewed the chemical analysis of water samples dated February 4, 2015. All of the contaminants were below the Maximum Contaminant Level (MCL) with the exception of manganese. The original sample was retested and the manganese level was well below the MCL. Therefore, there are no deficiencies. In addition, the Utility's DEP Sanitary Survey Report, dated May 24, 2013, revealed no deficiencies.

Staff reviewed the Utility's last two DEP Wastewater Compliance Reports, dated May 22, 2012, and October 23, 2014. The earlier report noted issues with a reclaimed water spill which did not comply with effluent disposal standards. The Utility responded to this report in a letter dated July 19, 2012, indicating that all suggested actions had been taken. In the October 23, 2014, report, all areas of evaluation were found to be in compliance.

The Utility's Attempt to Address Customer Satisfaction

In order to determine the Utility's attempt to address customer satisfaction, staff reviewed customer complaints and comments from five sources: the Commission's Consumer Activity Tracking System (CATS), the DEP, the complaints the Utility has recorded, the customer meeting, and any correspondence submitted to the Commission Clerk regarding this rate case.

The customer meeting was held in Zephyrhills, Florida, on February 11, 2015. Approximately 130 residents of Forest Lake Estates attended the meeting. Fourteen residents, an attorney of the Co-op, and the community property manager spoke at the meeting. A summary of all complaints and comments received is shown in Table 1-1.

Table 1-1

| Number of Complaints by Source | | | | | |
|---|---|---|---|---|---|
| Subject of Complaint | PSC's Records (CATS) (test year) | Utility's Records (test year) | DEP (test year) | Docket Correspondence | Customer Meeting |
| Billing Related | | 3 | | 1 | |
| Opposing Rate Increase | | | | 26 | 12 |
| Quality of Water | | 4 | | 33 | 11 |
| Wastewater Odor | | 7 | | | 1 |
| Outage or Equipment Repair | 8 | 2 | | 5 | 6 |
| Total* | 8 | 16 | 0 | 34 | 14 |

* A complaint may appear twice in this table if it meets multiple categories.

Complaints were also reviewed for the four years prior to the test year. The Commission received 7 complaints, DEP received 1 complaint, and the Utility recorded 170 for this time period. Based on the records of the Utility and the Commission, it appears that the Utility has responded in a timely manner to each of these complaints. Additionally, the Co-op created a questionnaire, solicited responses from the customers of the Utility, and submitted those responses to the Commission. Staff has reviewed these responses and has found that they are consistent with the concerns presented at the customer meeting and in the customer comments.

For the wastewater system, the records indicate that the complaints about odor coming from the WWTP have decreased greatly since the odor control project was completed in 2013. There was an average of five odor complaints per year from 2009 through 2011, twenty-one odor complaints in 2012, seven odor complaints in 2013, one at the customer meeting, and zero mentioned in customer comment cards submitted to the Commission.

For the water system, the complaints and comments indicate that many customers remain dissatisfied with the quality of the water. The order in the previous rate case stated, in part, that "[we] expect the Utility to engage customers in further discussion of water quality and possible options for aesthetic water quality improvement as well."[2] Staff, therefore requested from the Utility any records that showed it had engaged with customers in such discussions. The Utility has provided staff with synopses of six meetings it held with board members and representatives of the Co-op, which represents approximately 40 percent of Forest Lake Estates residents. Staff found that these synopses describe meetings that deal primarily with wastewater concerns. In the most recent of these meetings, held after the customer meeting for this rate case, water quality was discussed. The Utility described its iron sequestration and line flushing programs, as well as the erroneous manganese level testing from February 4, 2015. The synopsis of this and the other meetings does not appear to indicate that the Utility has actively engaged its customers to discuss possible options to improve the aesthetics of the water provided, as expected in the previous order.

In addition to addressing the water dissatisfaction, the Commission's prior order found that the quality of service for the wastewater system was marginal, and reduced the Utility's ROE for wastewater by 25 basis points.[3] The reason for this determination was the Utility's failure to address customer dissatisfaction regarding odor complaints from the WWTP. Staff notes that the state of the current water complaints and the Utility's response is very similar to the state of the wastewater odor complaints in the previous rate case.

When determining the quality of service for a utility, Rule 25-30.433(1), F.A.C., requires staff to consider three separate components of utility operations: 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. Staff recommends that the condition of plant and facilities are satisfactory, and that the quality of the utility's product meets all DEP health and aesthetics standards. However, staff believes that, while the Utility has attempted to address other complaints and requests, it has not sufficiently attempted to address customer concerns with the quality of the water. Based on customer input, it appears that customer satisfaction with the quality of water has not significantly improved. The Utility has not presented evidence that it is taking steps to address this issue, and therefore has not followed the intent of the previous order.

Conclusion

Labrador has not made sufficient efforts to engage its customers to discuss and resolve their continuing dissatisfaction with the quality of the water since its last rate case. Therefore, staff recommends that the overall quality of service provided by Labrador should be considered satisfactory for the wastewater services, and marginal for water services provided to customers. In addition, staff recommends a reduction in the ROE for its water treatment plant and facilities of 25 basis points.

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[2] Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.
[3] Id.

**Issue 2**: Should the audit adjustments to rate base, to which Labrador and staff agree, be made?

**Recommendation**: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base as set forth in staff's analysis below. (Galloway, Smith)

**Staff Analysis**: In its response to the staff audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the tables below.

Table 2-1

Audit Adjustments Agreed to by Labrador

| Water - Labrador Audit Findings | Plant | Accum. Depr. |
|---|---|---|
| Finding No. 1 - To reflect prior COAs | $0 | ($533) |
| Finding No. 3 – To correct capitalized salaries | (1,698) | 0 |
| Finding No. 5 - To correct CWIP transfer | (2,682) | (602) |
| Finding No. 6 - To reverse debit balances in A/D | 0 | (1,570) |
| Subtotal Water - Labrador Adjustments | ($4,380) | ($2,705) |
| Water - Affiliate Audit Findings | | |
| Finding No. 1 - To correct transportation allocation | ($13,693) | ($14,379) |
| Finding No. 4 - To reflect prior COAs | (6,297) | (9,985) |
| Finding No. 5 - To correct allocations of common plant | (5,665) | 0 |
| Subtotal Water - Affiliate Adjustments | ($25,655) | ($24,364) |
| Total Water Audit Adjustments | ($30,035) | ($27,069) |

Table 2-2

Audit Adjustments Agreed to by Labrador

| Wastewater - Labrador Audit Findings | Plant | Accum. Depr. |
|---|---|---|
| Finding No. 1 - To reflect prior COAs | $0 | ($4,450) |
| Finding No. 2 - UPIS Capitalized Salary Adjustment | 0 | (921) |
| Finding No. 6 - To reverse debit balances in A/D | 0 | (53,135) |
| Finding No. 7 - To correct ADIT balance | 0 | 0 |
| Subtotal Wastewater - Labrador Adjustments | $0 | ($58,506) |
| Wastewater - Affiliate Audit Findings | | |
| Finding No. 1 - To correct transportation allocation | ($13,601) | ($14,282) |
| Finding No. 4 - To reflect prior COAs | (6,258) | (9,912) |
| Finding No. 5 - To correct allocations of common plant | 4,644 | 0 |
| Subtotal Wastewater - Affiliate Adjustments | ($15,215) | ($24,194) |
| Total Wastewater Audit Adjustments | ($15,215) | ($82,700) |

**Issue 3**: Should any adjustment be made to Labrador's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation**: Yes. Adjustments should be made to reduce accumulated depreciation by $1,684 for water and $1,655 for wastewater and reduce depreciation expense by $1,684 for water and $1,655 for wastewater. (T. Brown)

**Staff Analysis**: The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of Utilities, Inc., (UI) and its subsidiaries. UI's Phoenix Project became operational in December 2008. In the Miles Grant Water and Sewer Co., case, the Commission determined that recovery of Phoenix Project costs would be allocated on the basis of equivalent residential connections (ERCs).[4] Beginning with the Utilities, Inc. of Pennbrooke case, and in subsequent dockets, the Commission removed the ERCs of systems divested by UI from total company ERCs when calculating the net investment in the Phoenix Project.[5]

In the instant docket, UI allocated 0.56 percent of its costs to Labrador based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are $23,176,439, of which the Utility calculated its allocated share to be $129,788.[6]

UI Generic Docket

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, UI, with the consent and support of OPC, petitioned the Commission to open a generic docket to address the protested issue relating to the Utility's Phoenix Project.[7] These protested issues were subsequently addressed by Order No. PSC-14-0521-FOF-WS in the UI Generic Docket.[8] In the UI Generic Docket, the Commission clarified its treatment of divestitures going forward; so that any adjustments related to UI divested systems were net of any UI acquisitions. The Commission also reiterated its position that the appropriate depreciable life for the Phoenix Project is ten years and that remaining depreciable life should be used in the calculation of depreciation expense.[9]

At the time the Phoenix Project was placed in service, UI had 296,950 total ERCs. The Utility filed an update of closed and pending acquisitions on February 13, 2015. As of that date, there were 297,085 ERCs.[10] According to the Utility, an acquisition closed on January 13, 2015,

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[4] Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.
[5] Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.
[6] Audit Control No. 14-197-4-1, Work Paper No. 22-4.6.1, in Docket No. 140060-WS.
[7] Order No. PSC-12-0346FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.
[8] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[9] Order No. PSC-14-0521-FOF-WS, p.11.
[10] Document No. 00959-15, filed February 13, 2015.

and several additional pending acquisitions are under contract pending approval by the Louisiana and New York regulatory authorities. Given these acquisitions, an adjustment to the investment is no longer necessary given that UI will exceed the level of total ERCs existing when the Phoenix Project was placed in service. As such, the adjustment identified in Affiliate Audit Finding No. 2 is no longer necessary.

Accordingly, staff believes the adjustment to accumulated depreciation and depreciation expense identified in Affiliate Audit Finding No. 3 should be revised to reflect the full investment of the Phoenix Project. Audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Consistent with the Commission's decision in the UI Generic Docket, adjustments should be made to decrease water and wastewater accumulated depreciation by $1,684 and $1,655, respectively. Water and wastewater depreciation expense should also be decreased by $1,684 and $1,655, respectively.

Creation of a Regulatory Asset or Liability

In addition to establishing the UI Generic Docket in Docket No. 110153-SU, the parties agreed, and the Commission subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Eagle Ridge resulting from a final Commission decision in this docket, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset or liability, at the 30-day commercial paper rate until the establishment of rates in Eagle Ridge's next rate proceeding.[11] The Labrador final order preceded the July 5, 2012, settlement Order in Eagle Ridge and does not include the regulatory asset or liability provision.[12] Accordingly, no adjustment is needed in this docket to address the regulatory asset or liability.

Conclusion

Staff recommends that accumulated depreciation be reduced by $1,684 for water and $1,655 for wastewater. Depreciation expense should be reduced by $1,684 for water and $1,655 for wastewater. These amounts are also reflected in Schedule Nos. 1-C and 3-C.

[11] Order No. PSC-12-0346-FOF-SU; pp. 2, 9.
[12] Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

**Issue 4**: Should any adjustments be made to Labrador's pro forma plant?

**Recommendation**: Yes. The appropriate amount of pro forma plant additions is $178,576 for water and $626,196 for wastewater. This results in an increase of $78,576 for water and a decrease of $47,868 for wastewater from the Utility's requested amounts. Corresponding adjustments to water and wastewater accumulated depreciation result in decreases of $8,662 and $2,540, respectively. Depreciation expense should also be increased by $2,528 for water and decreased by $1,560 for wastewater. Additionally, pro forma property taxes should be increased by $1,936 for water and decreased by $1,850 for wastewater. Accumulated deferred income taxes (ADITs) should be increased by $872 for water and be decreased by $3,666 for wastewater. Finally, test year expenses should be reduced by $161 to remove maintenance expense associated with the retired ground storage tank. (P. Buys, Galloway, Smith)

**Staff Analysis**: In its filing, Labrador included $100,000 for water pro forma plant additions and $674,064 for wastewater pro forma plant additions. While staff believes Labrador has provided reasonable documentation and justification for these projects, staff made adjustments to reflect the difference between what was provided in the MFRs and the estimated bids for the pro forma projects. Once the projects are completed, the Utility should provide invoices as they are received and processed.

WTP Ground Storage Tank Replacement

The ground storage tank was inspected in January 2010, and the report indicated several repairs should be made to the tank. The Utility estimated the tank to be 33 years old based on its review of its files and DEP inspections reports. Labrador asserted that replacing the ground storage tank would be less expensive then repairing the tank. Plus, repairing the tank would require taking the tank off-line which would cause long interruptions of water services to Labrador's customers. The Utility provided multiple bids for replacing the ground storage tank with a tank similar to the existing tank, a tank made of stainless steel, and a tank made of glass-fused steel. The lowest bid, which was for a tank made of glass-fused steel, was $178,576. The project was awarded in February 2015 and will be completed by the end of June 2015. The retirement of the ground storage tank associated with this replacement is $36,519. Staff believes that the pro forma addition is reasonable and prudent because the cost to replace is less than the cost to repair, customer interruptions will be less during the replacement than during the repair, and the new tank will be more reliable than the repaired tank.

WWTP Rotary Drum Replacement

The documentation for this pro forma project indicated that the existing rotary drum is no longer repairable and does not perform as intended. A rotary drum continuously removes debris from the raw wastewater stream prior to the first treatment unit. The rotary drum is estimated to be over 30 years old and at the end of its service life. A new rotary drum was placed in service in October 2014. The project costs $49,700 and the retirement associated with this replacement is $19,658. Staff believes that this pro forma addition is reasonable and prudent because the old rotary drum was at the end of its service life and unrepairable, and the new rotary drum will provide reliable wastewater service to Labrador's customers.

WWTP Odor Control

In May 2008, Forest Lake Estates Cooperative filed a civil lawsuit against Labrador. In June 2013, a settlement was reached and the case was closed. Part of the settlement was that Labrador would undertake the WWTP odor control pro forma project. This project includes refurbishing three steel digester tanks and two steel flow equalization tanks followed by installing tank covers, fiberglass ducts, a two-stage biological reactor, control panel, and appurtenances. The number of complaints received by Labrador and the Commission concerning the WWTP odor have decreased. In addition, staff observed minimal odor coming from the WWTP during its site visit. Labrador received four bids for this project and the lowest bid was $576,496. There are no retirements associated with this project. Based on this information above, staff believes that the pro forma addition is reasonable and prudent.

Staff is recommending adjustments to the water and wastewater plant, accumulated depreciation, depreciation expense, property taxes and ADIT. The tables below illustrate these adjustments.

Table 4-1

| Pro Forma Water Plant Adjustments | | | | |
|---|---|---|---|---|
| Project | MFR Amount | Invoices Amount | Staff Adjustments | Staff Recommended |
| Ground Storage Tank | $100,000 | $178,576 | $78,576 | $178,576 |

Table 4-2

| Pro Forma Wastewater Plant Adjustments | | | | |
|---|---|---|---|---|
| Project | MFR Amount | Invoices Amount | Staff Adjustments | Staff Recommended |
| Odor Control Equip. | $624,064 | $576,496 | ($47,568) | $576,496 |
| Rotary Drum Screen | 50,000 | 49,700 | (300) | 49,700 |
| Total | $674,064 | $626,196 | ($47,868) | $626,196 |

Table 4-3

| Water Accumulated Depreciation Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Annual Depreciation | Retirements | Total TY Adjustment | Adj Per MFR A-3 | Staff Adjustment |
| Ground Storage Tank | ($4,826) | $36,519 | ($31,693) | ($23,031) | $8,662 |

Table 4-4

| Wastewater Accumulated Depreciation Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Annual Depreciation | Retirements | Total TY Adjustment | Adj Per MFR A-3 | Staff Adjustment |
| Odor Control Equip. | ($32,028) | 0 | ($32,028) | ($34,670) | $2,642 |
| Rotary Drum Screen | (2,761) | 19,658 | 16,897 | 16,999 | (102) |
| Total | ($34,789) | $19,658 | ($15,131) | ($11,639) | $2,540 |

Table 4-5

| Water Depreciation Expense | | | | | |
|---|---|---|---|---|---|
| Project | Cost | Service Life | Staff Dep Exp | MFR Amounts | Staff Adj |
| Ground Storage Tank | $178,576 | 37 | $4,826 | $2,007 | $2,819 |
| Retirement | ($6,519) | 37 | ($987) | ($696) | ($291) |
| | | | | | $2,528 |

Table 4-6

| Wastewater Depreciation Expense | | | | | |
|---|---|---|---|---|---|
| Project | Cost | Service Life | Staff Dep Exp | MFR Amounts | Staff Adj |
| Odor Control Equip. | $576,496 | 18 | $32,028 | $34,670 | ($2,642) |
| Rotary Drum Screen | 49,700 | 18 | 2,761 | 1,679 | 1,082 |
| Total | $626,196 | | $34,789 | $36,349 | ($1,560) |

Table 4-7

| Water Pro Forma Property Taxes | | | | | |
|---|---|---|---|---|---|
| Project | Net Plant | Millage | Staff Amount | MFR Amount | Staff Adj |
| Ground Storage Tank | $173,750 | 0.0168154 | $2,805 | $869 | $1,936 |

Table 4-8

| Wastewater Pro Forma Property Taxes | | | | | |
|---|---|---|---|---|---|
| Project | Net Plant | Millage | Staff Amount | MFR Amount | Staff Adj |
| Odor Control Equip. | $544,468 | 0.0168154 | $8,789 | $10,552 | ($1,762) |
| Rotary Drum Screen | 46,939 | 0.0168154 | 758 | 845 | 88 |
| Total | $591,407 | | $9,547 | $11,397 | ($1,850) |

Table 4-9

| Pro Forma Water ADITs Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Cost | 2015 Dep per Tax | 2015 Dep per Books | Difference | ADIT |
| Ground Storage Tank | $178,576 | $7,143 | $4,826 | $2,317 | ($872) |

Table 4-10

| Pro Forma Wastewater ADITs Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Cost | 2015 Dep per Tax | 2015 Dep per Books | Difference | ADIT |
| Odor Control Equip. | $576,496 | $23,060 | $32,028 | ($8,968) | $3,375 |
| Rotary Drum Screen | 49,700 | 1,988 | 2,761 | (773) | 291 |
| Total | $626,196 | $25,048 | $34,789 | ($9,741) | $3,666 |

Conclusion

Based on the information above, staff recommends that the appropriate amount of pro forma plant additions is $178,576 for water and $626,196 for wastewater. This results in an increase of $78,576 for water and a decrease of $47,868 for wastewater from the amount requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to decrease accumulated depreciation for water and wastewater by $8,662 and $2,540, respectively. Depreciation expense should be increased by $2,528 for water and decreased by $1,560 for wastewater. In addition, pro forma property taxes should be increased by $1,936 for water and decreased by $1,850 for wastewater. Further, ADITs should increase by $872 for water and decreased of $3,666 for wastewater. Finally, test year expenses should be reduced by $161 to remove maintenance expense associated with the retired ground storage tank.

**Issue 5**: What are the Used and Useful (U&U) percentages of Labrador's water and wastewater systems?

**Recommendation**: Labrador's water treatment plant, ground storage tank, wastewater treatment plant, water distribution system and wastewater collection system should be considered 100 percent U&U. Staff recommends that a 6.4 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. No adjustments should be made for excessive infiltration and inflow. (P. Buys)

**Staff Analysis**: Based upon Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., the Commission's U&U evaluation of water and wastewater system includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base. The formula-based method calculates the customer demand as a percentage of capacity. The customer demand is based on the actual demand in the test period and the estimated demand over the five-year statutory growth period.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary, staff considers the reasons for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.[13] EUW is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Labrador produced 21,456,000 gallons of water and sold 17,421,000 gallons of water to customers. The Utility recorded 500,000 gallons of water used for other uses. The result ([21,456,000 – 17,421,000 – 500,000] / 21,456,000) for unaccounted for water is 16.4 percent, which yields EUW of 6.4 percent.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider infiltration and inflow (I&I). 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. 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. In addition, adjustments to operating expenses such as chemical and electrical costs are considered necessary, if excessive. Schedule F-6 of the MFRs indicated there is no excessive I&I for the test year. Staff has reviewed the assumptions and calculations and believes that they are reasonable. Therefore, staff recommends that no adjustment should be made for excessive I&I.

[13] Operating expenses include purchased electrical power and chemicals costs.

Used and Useful Plant

In its application, Labrador asserts that the water treatment plant (WTP), ground storage tank and wastewater treatment plant (WWTP), as well as the water distribution and wastewater collection systems, are all 100 percent U&U. Labrador maintains that the service territory the treatment plants are designed to serve are built out and there is no obvious potential for expansion. The service area consists of the 894-lot Forest Lake Estates Mobile Home Park and the 274-lot Forest Lakes RV Park. Within the service area, there is a vacant 11.6 acre parcel of land which is owned by the Co-op. Currently, the residents use this land for RV parking and there are plans to build a maintenance shed on this site. The land has been vacant and used as RV parking since 2004 with no indication of development.

Water Treatment Plant

In Docket No. 110264-WS, the Commission determined that Labrador's WTP was 100 percent U&U.[14] There has been no change in circumstances; therefore, in accordance with Commission policy, staff recommends that the WTP should continue to be 100 percent U&U.

Ground Storage Tank

In Docket No. 110264-WS, the Commission determined that Labrador's ground storage tank was 100 percent U&U. There has been no change in circumstances; therefore, in accordance with Commission policy, staff believes that the ground storage tank should continue to be 100 percent U&U.[15]

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the WWTP was calculated by taking the Three Month Rolling Average Daily Flow (3MRADF) plus a growth allowance minus the excessive I&I and then dividing the sum by the permitted capacity of the plant. Labrador's test year 3MRADF was 64,863 gpd. There has been no growth in the past five years; therefore, the growth allowance is zero gpd. In addition, the excessive I&I is calculated to be zero percent. The WWTP's permitted capacity is 216,000 gpd per 3MRADF. The calculation [(64,863-0+0)/216,000] results in a 30 percent U&U. In Docket No. 110264-WS, the Commission determined that Labrador's WWTP was 79.94 percent U&U.[16] Labrador believes that this facility should be considered 100 percent U&U because the plant was designed to serve full occupancy at design flows of 280 gpd/ ERC which would require 250,000 gpd capacity. The actual flows are closer to 58 gpd/ERC in the peak three-month period assuming 95 percent occupancy. As mentioned above, there is a vacant 11.6 acre parcel of land which is owned by Forest Lakes Estates Cooperative. This land is undeveloped and the residents have been using it for RV storage since 2004. When asked, the Co-op advised that the only plans for the land was to build a maintenance shed on the site. Rule 25-30.432, F.A.C., contains a provision for consideration of other factors when developing the U&U percentage, such as whether the service

[14] Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.
[15] Id.
[16] Id.

area is built out with no potential for expansion of the service territory. Based on the above information and pursuant to Rule 25-30.432, F.A.C., the service area should be considered built out and the WWTP should be considered 100 percent U&U.

Water Distribution and Wastewater Collection Systems

The Commission found the distribution and collection systems to be 100 percent U&U by Order No. PSC-12-0206-PAA-WS.[17] There has been no change in circumstances; therefore, in accordance with Commission policy, the water distribution system and wastewater collection system should continue to be considered 100 percent U&U.

Conclusion

Labrador's water treatment plant, ground storage tank, wastewater treatment plant, and water distribution and wastewater collection systems should be considered 100 percent used and useful. Staff recommends that a 6.4 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. No adjustments should be made for excessive infiltration and inflow.

[17] Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

**Issue 6**: What is the appropriate working capital allowance?

**Recommendation**: The appropriate working capital allowances are $19,063 for water and $28,777 for wastewater. As such, the working capital allowances should be decreased by $6,570 and $9,371 for water and wastewater, respectively. (Galloway, Smith)

**Staff Analysis**: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and Maintenance (O&M) expense, to calculate working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. Staff has recommended adjustments to Labrador's O&M expense, which are reflected on Schedule No. 3-C. As a result, staff recommends working capital allowances of $19,063 for water and $28,777 for wastewater. This reflects a decrease of $6,570 to the Utility's requested working capital allowance for water and a decrease of $9,371 for wastewater.

**Issue 7**: What is the appropriate rate base for the test year period ended December 31, 2013?

**Recommendation**: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2013, is $758,478 for water and $1,898,946 for wastewater. (Galloway, Smith)

**Staff Analysis**: In its MFRs, the Utility requested a rate base of $680,736 for water and $1,886,122 for wastewater. Based on staff's recommended adjustments, the appropriate rate base is $758,478 for water and $1,898,946 for wastewater. Staff's adjustments recommended in the preceding issues result in an increase of $77,742 for water and an increase of $12,824 for wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.

**Issue 8**: What is the appropriate return on equity?

**Recommendation**: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.43 percent for wastewater. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. Additionally, staff is recommending a 25-basis point reduction in ROE for water only, as discussed in Issue 1. This reduction results in an ROE for water of 10.18 percent. (Galloway, Smith)

**Staff Analysis**: The Utility requested an ROE of 10.43 percent. Based on the Commission leverage formula currently in effect and an equity ratio of 48.78 percent, the appropriate ROE is 10.43 percent for wastewater.[18] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. As discussed in Issue 1, staff is recommending a 25-basis point reduction to the ROE for water due to staff's determination of a marginal quality of service for water as discussed in Issue 1. This reduction results in ROE for water of 10.18 (10.43 - .25) percent.

[18] 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), Florida Statutes.

**Issue 9**: What is the appropriate amount of accumulated deferred income taxes?

**Recommendation**: The appropriate amount of accumulated deferred income taxes (ADITs) to include in the capital structure is $24,058. (Galloway, Smith)

**Staff Analysis**: In its filing, Labrador reflected a debit ADIT balance of $3,261, of which $1,644 was attributed to water and $1,617 was attributed to wastewater. Staff believes several adjustments are necessary to reflect the appropriate ADIT balance for the Utility as discussed below.

According to Audit Finding No. 7, the Utility failed to remove an acquisition adjustment as ordered by the Commission in Order No. PSC-03-0638-PAA-WS, issued May 27, 2003. Removing the acquisition adjustment of $62,401 results in an adjustment of $11,741 [($62,401 * 37.63 percent)/2] and a test year average credit ADIT balance of $8,480 ($11,741 - $3,261). Labrador also included a debit ADIT amount of $18,372 associated with a net operating loss (NOL). For the purpose of setting rates, the debit amount associated with the NOL should not be included in the ADIT balance unless the NOL is included in the calculation of the per book income tax expense. Because the Utility did not include the NOL in its income tax expense, staff recommends the debit amount of $18,372 be removed from the Utility's net credit ADIT balance. Further, the Utility did not include any adjustments related to pro forma ADITs in its filing. Based on staff's recommendation regarding pro forma plant in Issue 4, staff recommends a corresponding pro forma ADIT decrease of $2,794 ($3,666 - $872).

Based on the above, the appropriate ADIT balance to include in the capital structure is $24,058 ($8,480 + $18,372 - $2,794).

**Issue 10**: 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, 2013?

**Recommendation**: The appropriate weighted average cost of capital for the test year ended December 31, 2013 is 8.25 percent for water and 8.37 percent for wastewater. (Galloway, Smith)

**Staff Analysis**: In its filing, the Utility requested an overall cost of capital of 8.50 percent. In addition to the recommendations in Issues 8 and 9, staff believes the cost rates for short-term debt and customer deposits should be adjusted.

In its filing, Labrador properly used the simple average method to calculate its short-term interest rate of 8.48 percent. In Docket No. 140060-WS, Labrador's sister company, Sanlando Utilities Corp. (Sanlando), used a 13-month average method to calculate an average short-term interest rate of 2.82 percent. Sanlando also calculated an average short-term debt amount of $9,315,385. Using the simple average method, Labrador calculated its average short-term debt balance to be $3,100,000. Given that both utilities had the same amount of interest expense, the simple average method skews the calculation of the interest rate. Because the short-term debt for both utilities is allocated from their parent company, Utilities Inc., staff recommends the interest rate be the same. Therefore, staff recommends reducing Labrador's short-term interest rate to 2.82 percent to be consistent with the short-term debt cost rate of Sanlando.

In its filing, Labrador included 6.00 percent as the cost rate for customer deposits on MFR Schedule D-1. The Utility's response to staff's data request confirmed that 2.00 percent is the appropriate cost rate for customer deposits. Therefore, in accordance with Rule 25-30.311(4)(a), F.A.C., staff recommends the cost rate for customer deposits should be 2.00 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital for the test year ended December 31, 2013, of 8.25 percent for water and 8.37 percent for wastewater. As discussed in Issues 1 and 8, staff is recommending a 25-basis point reduction in ROE for water only. Schedule No. 2 details staff's recommended overall cost of capital.

**Issue 11**: Should adjustments be made to test year revenues?

**Recommendation**: Yes. The appropriate test year revenues for Labrador's water and wastewater systems are $263,502 and $407,248, respectively. (Bruce)

**Staff Analysis**: In its MFRs, Labrador's adjusted test year revenues were $262,050 for water and $406,120 for wastewater. The water revenues include $260,529 of service revenues and $1,521 of miscellaneous revenues. The wastewater revenues include $405,217 of service revenues and $903 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff adjusted the test year billing determinants to reflect actual gallons sold, removed prior period billing determinants, and removed duplicate bills. The Utility had two rate adjustments outside of the test year. Therefore, staff annualized test year revenues by applying the rates in effect as of October 19, 2014, to the staff adjusted billing determinants.[19] Accordingly, test year service revenues should be $261,981 for water and $406,345 for wastewater. This results in an increase of $1,452 ($261,981 - $260,529) for water and $1,128 ($406,345 - $405,217) for wastewater test year service revenues. Based on the above, the appropriate test year revenues for Labrador's water and wastewater systems, including miscellaneous revenues, are $263,502 and $407,248, respectively.

[19] The Utility filed a 2014 Price Index that became effective October 19, 2014.

**Issue 12**: Should the audit adjustments to operating expense, to which Labrador and staff agree, be made?

**Recommendation**: Yes. Based on the audit adjustments agreed to by Labrador and staff, the following adjustments should be made to net operating income as set forth in staff's analysis below. (Smith)

**Staff Analysis**: In its response to the staff audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the table below.

Table 12-1
Audit Adjustments Agreed to by Labrador

| Labrador Audit Findings | Water O&M | Wastewater O&M | Water Dep Exp | Wastewater Dep Exp | Water TOTI | Wastewater TOTI |
|---|---|---|---|---|---|---|
| Finding No. 1 - To reflect prior Commission-Ordered Adjustments | $0 | $0 | ($6) | ($3) | $0 | $0 |
| Finding No. 2 - To correct capitalized salaries | 0 | 0 | 0 | (443) | 0 | 0 |
| Finding No. 3 - To correct capitalized salaries | 739 | 0 | (112) | 0 | 0 | 0 |
| Finding No. 5 - To correct Construction Work In Progress transfer | 0 | 0 | 1,204 | 0 | 0 | 0 |
| Finding No. 9 - To amortize abandoned projects expense | (38,366) | (37,714) | 0 | 0 | 0 | 0 |
| Finding No. 10 - To amortize lawsuit expense | (4,311) | (4,237) | 0 | 0 | 0 | 0 |
| Subtotal - Labrador Adjustments | ($41,938) | ($41,951) | $1,086 | ($446) | $0 | $0 |
| Affiliate Audit Findings | | | | | | |
| Finding No. 1 - To correct transportation allocation | ($1,234) | ($1,226) | $488 | $484 | $0 | $0 |
| Finding No. 4 - To reflect prior Commission-Ordered Adjustments | 0 | 0 | 285 | 286 | 0 | 0 |
| Finding No. 8 - To correct allocated payroll, benefits, & tax expenses | (8,365) | (7,665) | 0 | 0 | (178) | (131) |
| Subtotal - Affiliate Adjustments | ($9,599) | ($8,891) | $773 | $770 | ($178) | ($131) |
| Total Audit Adjustments | ($51,537) | ($50,842) | $1,859 | $324 | ($178) | ($131) |

**Issue 13**: What is the appropriate amount of rate case expense?

**Recommendation**: The appropriate amount of rate case expense is $102,439. This expense should be recovered over four years for an annual expense of $25,610. Therefore, annual rate case expense should be decreased by $14,323 for water and $14,080 for wastewater from the respective levels of expense included in the MFRs. (T. Brown, Norris)

**Staff Analysis**: In its MFRs, Labrador requested $216,050 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 February 24, 2015, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $143,632. However, using information provided by the Utility, staff calculated the revised estimated rate case expense to be $142,797. Staff will use its revised figure for purposes of this recommendation. The following table illustrates the Utility's requested rate case expense.

Table 13-1

| Initial and Revised Rate Case Expense | | | | |
|---|---|---|---|---|
| | MFR B-10 Estimated | Actual | Additional Estimated | Revised Total |
| Legal Fees | $40,000 | $25,112 | $14,040 | $39,152 |
| Accounting Consultant Fees | 66,000 | 60,313 | 6,800 | 67,113 |
| Engineering Consultant Fees | 4,950 | 2,588 | 0 | 2,588 |
| WSC In-house Fees | 95,000 | 19,855 | 3,990 | 23,845 |
| Filing Fee | 4,000 | 0 | 4,000 | 4,000 |
| WSC Travel | 1,000 | 0 | 1,000 | 1,000 |
| WSC FedEx/Misc. | 100 | 0 | 100 | 100 |
| Cust. Notices and Postage | 5,000 | 0 | 5,000 | 5,000 |
| Total | $216,050 | $107,867 | $34,930 | $142,797 |

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Labrador's rate case expense estimate are appropriate.

Legal Consultant Fees – Friedman & Friedman, P.A. (F&F)

The first adjustment to rate case expense relates to Labrador's legal fees. The Utility included in its MFRs $40,000 in legal fees to complete the rate case. Labrador provided support documentation detailing this expense through February 17, 2015. The documentation and Revised B-10 showed actual expenses associated with the rate case totaling $25,112, and an estimated $14,040 to complete the rate case, totaling $39,152. Actual expenses included the $4,000 filing fee, which also appeared under "Public Service Commission – Filing Fee" in the Utility's Revised B-10. Staff has left the filing fee as part of the legal fees and will remove the entry elsewhere in this issue to avoid double recovery of this fee.

According to the invoices, the law firm of F&F billed the Utility $735 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[20] Accordingly, staff believes that $735 should be removed as duplicative and unreasonable rate case expense. In a June 11, 2014, invoice entry, F&F noted 5.90 hours, or $2,065, for "Travel to Tallahassee for pre-filing meeting with PSC Staff." This same entry appears in F&F's support documentation in Sanlando's rate case. While staff believes it is appropriate to split the shared costs, staff believes it should be split three ways instead of in half. UI and Commission staff discussed a sister utility, Mid-County Services, Inc., in addition to Labrador and Sanlando at that meeting. As such, the total cost of the pre-filing meeting, $4,130 ($2,065 + $2,065), should be divided among the three utilities. This results in a per-utility cost of approximately $1,377. As such, $688 ($2,065 - $1,377) should be removed from F&F's fees to reflect the revised division. Accordingly, staff believes that $1,423 ($735 + $688) should be removed as duplicative and unreasonable rate case expense.

Additionally, staff recommends an adjustment to the estimated cost to complete this case. F&F's estimate to complete included fees for 29.5 hours at $360/hr. and costs totaling $520.[21] An additional $2,900 was noted in the Utility's Revised B-10 for various expenses associated with legal fees. Staff believes that the $2,900 is simply a placeholder amount left over from the original B-10 filed with the MFRs. As such, $2,900 should be removed from estimated costs. Staff believes that most of the estimated hours to complete appear reasonable, except for the 15 hours requested to "prepare for and attend Agenda conference, discuss Agenda with client and staff." Attorney's fees and costs associated with the Commission Conference should be reduced due to the fact that the attorney is also handling a rate case for Sanlando at the same Commission Conference.[22] As such, legal fees and costs associated with attending the Commission Conference should be shared by both utilities. Accordingly, staff recommends that 7.5 hours, or $2,700 ($360/hr. x 7.5 hrs.), be removed from estimated rate case expense. In total, staff recommends that legal fees and costs be reduced by $7,023 ($1,423 + $2,900 + $2,700) to reflect these adjustments.

[20] Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and 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.

[21] Beginning January 1, 2015, the hourly rate increased based upon the application of the Price Index since hourly rates were last adjusted. This results in a new hourly rate of $360.

[22] Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

<u>Accounting Consultant Fees – Milian, Swain & Associates (MS&A)</u>

The second adjustment relates to MS&A's actual and estimated fees of $67,113, which was comprised of $60,313 in actual costs and $6,800 in estimated fees to complete the rate case as of December 26, 2014.

In regard to MS&A's actual expenses, staff reviewed the supporting documentation and identified 2.75 hours related to correcting deficiencies. As stated previously, the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. As such, staff believes that $263 (1.75 hrs. x $150/hr.) should be removed for M. Bravo and $200 (1 hr. x $200/hr.) be removed for D. Swain. Accordingly, staff recommends that MS&A's actual accounting consultant fees be reduced by $463 ($263 + $200).

Staff also identified approximately 357 hours in MS&A's support documentation related to MFR preparation. Staff was concerned that the number of hours related to MFR preparation might be duplicative of the hours spent by WSC In-House employees on the same task. Staff asked the Utility to explain why the WSC In-House hours related to MFR preparation (105 hours) were not duplicative of the hours for MFR preparation and review included in MS&A's rate case expense support documentation.[23] In response to staff's data request on the matter, the Utility responded by stating:

> The WSC In-House hours related to MFR preparation are in no way duplicative of the hours Milian, Swain and Associates, Inc. spends on MFR preparation. The WSC In-House hours associated with the MFR preparation primarily entail gathering the company's raw data, project plans, invoices and a slew of other information and then translating those items into a usable format for Milian, Swain and Associates, Inc. to use in the preparation of the MFRs.[24]

Staff will address adjustments to WSC's In-House hours later in this issue. Given the Utility's response above, and the additional adjustments to WSC hours recommended later, staff believes no additional adjustments to MS&A's actual expense are necessary.

MS&A estimates that a total of 44 hours are needed to complete the case. According to MS&A's summary, the consultant estimated the following:

[23] Based on the itemized descriptions of rate case work performed by WSC employees, approximately 27 hours of various MFR preparation are recorded for Patrick Flynn. Darrien Pitts' hours reflected approximately 53 hours for preparation of MFR schedules A, B, D, and E, and an additional 25 hours for the preparation of the chemical and transportation schedules.
[24] Document No. 01360-15, filed March 11, 2015.

Table 13-2

| MS&A's Estimated Hours to Complete Case | |
|---|---|
| Est. Hours | Activity |
| 10 | Provide support to client – Responses to Staff's Data Requests, including updates to Rate Case Expense. |
| 2 | Review Interim Order, test interim rates and consult with client. |
| 10 | Review audit, discuss issues with client. |
| 3 | Review OPC interrogatories, researching and preparing response, discussion with client and legal and follow-up. |
| 12 | Review Staff recommendations, testing recommended revenue requirements and resulting rates, including suppression calculations, and discuss with client. |
| 7 | Review PAA Order, testing final approved revenue requirements and resulting final rates, including suppression calculations, and discuss with client. |
| 44 | Total |

In short, staff believes the number of hours estimated for accounting consultant fees are excessive and unreasonable. MS&A has estimated 10 hours to respond to data request responses and provide updates to rate case expense. While six additional data requests were sent after MS&A's summary was assembled, staff believes that any response would require minimal time from the accounting consultant.[25] In fact, it is likely that these data requests would be more appropriately addressed by WSC In-House employees or Labrador staff. Moreover, no additional updates to rate case expense were received from this consultant. As such, staff believes that a total of 5 hours should be sufficient to address any remaining tasks here. Accordingly, staff recommends a reduction of 5 hours for C. Yapp.

MS&A included 2 hours in connection with reviewing the Interim Order in this docket. Staff notes that the Interim Order was issued on December 15, 2014.[26] Staff believes that any review of the Interim Order would likely have taken place between the order's issuance and the billed through date of December 26, 2014. As such staff recommends a reduction of 2 hours for C. Yapp.

Likewise, MS&A included 3 hours for reviewing OPC's interrogatories, preparing responses, discussions with client, and any follow-up. OPC did not file any interrogatories in this proceeding. As such, 3 hours (2 hours for C. Yapp, 1 hour for D. Swain) should be removed from estimated rate case expense.

In addition, MS&A included 10 hours to review the audit and discuss issues with client. Staff notes that two audit reports were prepared in this docket: the UI affiliate transactions audit report (issued on November 6, 2014) and the Labrador audit report (issued on December 16, 2014). Staff believes that the majority of MS&A's audit review likely occurred between each audit's issuance and the billed through date of December 26, 2014. However, staff recognizes

[25] The six data requests contained approximately 31 questions total.
[26] Order No. PSC-14-0695-PCO-WS.

that some additional review and discussion may have occurred outside of that period. Even though the majority of audit staff's adjustments were agreed to, staff believes that MS&A may have provided information or analysis prior to the Utility filing its audit responses.[27] Absent additional information, staff believes that a total of 5 hours should be sufficient to address any remaining audit-related tasks. Accordingly, staff recommends a reduction of 5 hours for C. Yapp.

MS&A included 19 hours to complete from the filing of staff's recommendation to the completion of the PAA process. Staff notes that this consultant has worked with Labrador, and other UI systems, on numerous dockets before this Commission through the years. The consultant's familiarity with the Utility and this Commission led staff to believe that the request is excessive and unreasonable. Absent additional support, staff believes that a total of 9.5 hours is an ample amount of time to review staff's recommendation and the Commission's PAA Order, and consult with their client in the instant docket. Accordingly, staff recommends a reduction of 9.5 hours (8 hours for C. Yapp, 1.5 hours for D. Swain).

In summary, staff recommends reducing the associate accountant's estimated hours to complete from 40 to 18, and the accounting firm partner's estimated hours to complete from 4 to 1.5. As such, staff believes that an additional $3,300 (22 hrs. x $150/hr.) should be removed for C. Yapp and $500 (2.5 hrs. x $200/hr.) be removed for D. Swain. Accordingly, staff recommends that accounting consultant fees be reduced by $4,263 ($463 + $3,300 + $500).

Engineering Consultant Fees – M&R Consultants

The Utility included $4,950 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to staff's data requests. The Utility provided support documentation detailing this expense through January 2015. The actual fees and costs totaled $2,588 with no additional estimated costs to complete the rate case. Staff believes the full amount of $2,588 to be reasonable and justified. Accordingly, no adjustment is necessary.

WSC In-House Staff Fees

The Commission has previously disallowed WSC In-House Employee fees in several dockets involving the Utility's sister companies.[28] However, the Commission subsequently allowed the inclusion of this expense for its sister companies, Utilities, Inc. of Florida and Cypress Lakes Utilities, Inc., based on the removal of employee salaries from the total salaries

[27] The Utility accepted 9 of the 12 findings in the Audit Report of Labrador Utilities, Inc. and 5 of the 8 findings in the Audit of Affiliate Transactions Report. Document Nos. 00712-15, filed February 2, 2015 and 00956-15, filed February 13, 2015.

[28] Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

and wages balance prior to any allocation.[29] Based on staff's review of the confidential salary information, the Utility failed to adjust the test year salary and wage expense to exclude capitalized time spent on the instant docket.

In its MFRs, Labrador originally estimated $95,000 in expense for in-house employees. The Utility provided updates of actual and estimated rate case expense through January 15, 2015. Labrador reflected $19,855 of actual expense for in-house employees and estimated expense to completion of $3,990, totaling $23,845. In support of the actual expense, the Utility also provided a breakdown of the work performed by each employee including hours and descriptions.

The total employee compensation reflected in the Utility's confidential salary information did not include an adjustment that corresponded to the amount of in-house employee expense estimated by Labrador in Schedule B-10 of its MFRs. The total employee compensation prior to any allocation reflected a full year of salaries and wages for each employee. Further, the Utility stated that the hourly positions paid did not incur overtime for time spent on this rate case and the positions that are salaried did not receive any bonuses for time spent on this rate case.

As such, staff believes the entire amount of WSC in-house employees should be removed from rate case expense. The job duties and descriptions of the in-house employees that comprise this expense include rate case related functions. Thus, this expense is appropriately reflected in the Utility's salaries and wages expense. Therefore, staff recommends that the $23,845 related to in-house employees be removed from rate case expense.

Filing Fee

The Utility included $4,000 in its MFR Schedule B-10 for the filing fee. According to the documentation provided by F&F, the $4,000 filing fee was paid as part of the legal fees and was included in F&F's invoices. Since the amount is already included in F&F's legal fees, staff removed $4,000 to avoid double recovery of this fee.

WSC Travel Expense

In its MFRs, Labrador estimated $1,000 for travel expenses. The Utility provided no support documentation for this expense, or a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, staff recommends that $1,000 of rate case expense associated with WSC Travel Expense be removed.

[29] Order Nos. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-14-0283-PAA-WS issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

WSC FedEx Expense

The final adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The Utility estimated $100 of FedEx and other miscellaneous costs in its initial filing, but did not provide any support of these expenses. Based on the lack of support documentation, staff recommends that rate case expense be decreased by $100.

Customer Notices and Postage

In its revised rate case expense schedule, Labrador reflected estimated costs of $5,000 for customer noticing and postage. The Utility is responsible for sending out four notices: the initial notice, the interim notice, customer meeting notice, and notice of the final rate increase. The interim notice and initial notice were not combined in this docket. Instead, the initial notice was combined with the customer meeting notice. The Utility did not provide any invoices reflecting the actual cost associated with sending the interim notice, or the combined initial and customer meeting notice.

The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.[30] The estimated cost of postage for the interim notice, combined initial and customer notice, and the final notice is approximately $782 (764 customers x $0.341 pre-sorted rate x 3 notices), the cost of copies is approximately $840 (764 customers x $0.10 per copy x 11 total pages), and the cost of envelopes is approximately $115 (764 customers x $0.05 x 3 notices). Based on these components, we find the total cost for these notices and postage is $1,737 ($782 + $840 + $115). As such, rate case expense should be decreased by $3,263 ($5,000 - $1,737) to allow for adequate expenses related to mailing notices.

Additional Rate Case Expense

In addition to the rate case expense provided by the Utility, the Commission found in the Utilities, Inc., generic docket "that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiaries' ERCs to UI's total Florida ERCs as of December 31, 2013."[31] The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Recovery of this expense should be included as a separate line item within rate case expense as part of each subsidiaries' next file and suspend rate case, limited proceeding, or staff-assisted rate case. Labrador's portion of rate case expense from that docket is $3,136, or $784 on an annual basis.

[30] Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
[31] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system, p. 19.

Conclusion

Based upon the adjustments discussed above, staff recommends that Labrador's revised rate case expense of $142,797 be decreased by $40,358, to reflect staff's adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of $102,439. A breakdown of rate case expense is as follows:

Table 13-3

Staff-Recommended Rate Case Expense

| Description | MFR Estimated | Utility Revised Act.& Est. | Staff Adj. | Recom. Total |
|---|---|---|---|---|
| Legal Fees | $40,000 | $39,152 | ($7,023) | $32,129 |
| Accounting Consultant Fees | 66,000 | 67,113 | (4,263) | 62,851 |
| Engineering Consultant Fees | 4,950 | 2,588 | 0 | 2,588 |
| WSC In-House Fees | 95,000 | 23,845 | (23,845) | 0 |
| Filing Fee | 4,000 | 4,000 | (4,000) | 0 |
| WSC Travel | 1,000 | 1,000 | (1,000) | 0 |
| WSC FedEx/Misc. | 100 | 100 | (100) | 0 |
| Cust. Notices and Postage | 5,000 | 5,000 | (3,263) | 1,737 |
| Total | $216,050 | $142,797 | ($43,494) | $99,303 |
| Add'l RCE – Generic Dkt. | | | | $3,136 |
| Total w/Add'l RCE | | | | $102,439 |

In its MFRs, the Utility requested total rate case expense of $216,050. When amortized over four years, this represents an annual expense of $54,013. The recommended total rate case expense of $102,439 should be amortized over four years, pursuant to Section 367.081(6), F.S. Based on the above, staff recommends that rate case expense be decreased by $113,611 ($216,050 – $102,439). As a result, annual rate case expense should be decreased by $14,323 for water and $14,080 for wastewater from the respective levels of expense included in the MFRs.

**Issue 14**: Should further adjustments be made to Labrador's operating expenses?

**Recommendation**: Yes. The operating expenses for the test year should be increased by $13,266 for water and decreased by $10,337 for wastewater. (Trueblood, T. Brown, P. Buys)

**Staff Analysis**: In its filing, Labrador recorded test year operating expenses of $205,060 for water and $305,181 for wastewater. Based on its review, staff believes several adjustments to the Utility's operating expenses are necessary, as summarized below.

Expense Allocations between Water and Wastewater

In the Affiliate Audit for Utilities Inc., the staff auditors examined O&M expense allocations for Labrador. Staff auditors found that the Utility changed the methodology in which it allocated all but direct O&M expenses between water and wastewater. In prior rate cases, the Utility used test year-end ERC factors to allocate O&M expenses between water and wastewater in accordance with the Commission's post-hearing decision in a sister utility's 2002 docket.[32] However, in the instant filing, the expenses were allocated based on business units. As a result, the staff auditors recalculated O&M water and wastewater balances based on the practice in prior rate cases and recommended that Labrador's water expenses be increased by $14,160 and wastewater expenses be decreased by $14,052.

In its response to Affiliate Audit Finding No. 6, Labrador disagreed with the finding and asserted that it is still using ERCs to allocate common plant and expenses and that there has been no change in its methodology. Although the Utility disagreed with Audit Finding No. 6, it failed to provide any calculations or documentation to refute the finding. Therefore, in accordance with the Commission's post-hearing decision, staff recommends that Labrador's water and wastewater expenses be adjusted as indicated above.

Contractual Services-Other Expense

According to audit staff's work papers and the UI general ledger, the account for "Internet Supplier" expense included 13 monthly payments allocated to Labrador. Staff believes that the second December payment of $13,943 is an out-of-period expense and should be removed. This results in a reduction of Labrador allocated expenses by $78 (.56 percent x $13,943). The removal of these costs resulted in a decrease to Contractual Services-Other Expense of $39 for water and $39 for wastewater.

A review of UI's general ledger for "Other Outside Services" expense revealed a May entry of $18,225 that was for the review of the forecasts for three utilities (Lake Utility Services, a Carolina utility, and a Louisiana utility). Staff believes these expenses should be a direct charge to those systems and the amount allocated to Labrador should be removed. This results in a reduction of $102 (.56 percent x $18,225) to Labrador. The removal of these costs results in a further decrease to Contractual Services-Other of $51 for water and $51 for wastewater.

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[32] Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Miscellaneous Expense

Staff reviewed the Affiliate Audit Work Papers 43-7.5 for miscellaneous expenses which showed that multiple payments totaling $46,259 were recorded for the Leadership Training Conference in Orlando, Florida at the Rosen Conference Center. The expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed expense support documentation warrants an adjustment in this instance. The Utility was put on notice that detailed support of this expense was required. Therefore, these costs should be disallowed consistent with the Commission decision in a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.[33] Therefore, Labrador's expenses should be reduced by $259 (.56 percent x $46,259). The removal of these costs results in a decrease to miscellaneous expense of $131 for water and $128 for wastewater.

The Affiliate Audit work papers for UI also indicated that office landscape/mowing allocations included in miscellaneous expense increased substantially from 2012 to 2013. A substantial amount of this increase was due to tree removal. Staff verified that this was a reoccurring expense. To determine an amount that is more representative of the costs the Utility would normally incur, staff calculated a four-year average using the amounts recorded for 2010-2013. Based on a four-year average, the 2013 expenses for office landscape/mowing should be reduced by $11,574, with an allocation for Labrador of $65. Likewise, the amount for water and wastewater should be reduced by $33 and $32, respectively.

Pro Forma Expense for Televise and Clean Gravity Collection Expense

Labrador requested to add a pro forma project to televise and clean its collection system once every ten years at a cost of $2.15 per linear foot. The Utility provided a quote dated March 20, 2015, from Altair Environmental Group. The quote included two options: to clean the lines all at once at $2.15 per linear foot and the other option, to clean 10 percent of lines at $2.96 per linear foot. The difference in the price per linear foot includes a mobilization fee of $1,200 and a dump fee of $1,500 per load. The expectation is that there will be a minimum of one load of material to be removed and hauled away per cleaning. It is more cost effective to televise and clean the entire system once every ten years as opposed to cleaning 10 percent of the system every year. Televising and cleaning the collection system will reduce the risk of pipe or manhole failures and will reduce backups and sanitary sewer overflows, which will enhance the overall quality of service to Labrador's customers. If the request is approved, Labrador will begin the biding process after the May 5, 2015 Commission Conference and expects to complete this project by the end of 2015. Staff believes that the project is prudent and reasonable.

The quote was to clean 28,000 Linear Feet at $2.15 per foot. The total cost is $60,200 (28,000 x $2.15) and the annual amortization expense is $6,020. Staff believes the test year wastewater O&M expenses should be increased by $6,020.

[33] Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes, Inc.

Chemicals

In its MFR, Labrador recorded $857 in chemical costs for water and $22,564 for chemical costs for wastewater for the test year. In a data request response, Labrador asserted that the correct chemical costs for water and wastewater are $1,416 and $23,514, respectively. Staff reviewed the invoices for the chemicals used in the test year that were provided in response to a data request. Based on staff's analysis, the actual chemical costs used during the test year are $1,591 for water and $21,291 for wastewater. Therefore, staff believes the test year chemical costs for water should be increased by $734 ($1,591 - $857) and the wastewater chemicals costs should be decreased by $1,273 ($22,564 - $21,291).

Excessive Unaccounted For Water (EUW)

Based on the 6.4 percent of unaccounted water in Issue 5, staff recommends that the purchased power and chemicals expense be reduced collectively by $497.

Land Lease Expense

The utility initially recorded land lease expense of $23,382 and $30,528 in its MFRs for water and wastewater, respectively. It subsequently reduced these expenses to $12,866 and $12,648, respectively. Based on staff's recommended cost of capital of 8.25 percent for water and 8.37 percent for wastewater, the appropriate amounts of land lease expenses are $10,943 and $18,123 for water and wastewater, respectively. As a result, staff recommends reducing the Utility's adjusted land lease expenses by $427 for water and $243 for wastewater.

Computer Maintenance Expense

In several recent rate cases involving Labrador's sister companies, the Commission recognized the volatility of computer maintenance expense.[34] Due to this volatility, the Commission has routinely used a five-year average as an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC at that time.[35]

[34] Order Nos. PSC-14-0335-PAA-WS, issued June 30, 2014, in Docket No. 130243-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.; PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

[35] See Order Nos. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

A five-year average was initially calculated using the computer maintenance expense included in the Utility's general ledger for 2009, 2010, 2011, 2012, and 2013. However, staff notes that the computer maintenance expense for 2010 is an anomaly when compared to the three most recent years, as reflected in the following table. Staff believes that computer maintenance expense should be determined in a prospective manner for the Utility. In this docket, staff believes that computer maintenance expense should be based on a three-year average using amounts from 2011, 2012, and 2013. This results in an average computer maintenance expense of $8,094, a reduction of $500 from the expense included in the Utility's test year. Based on the three-year average and Labrador's ERC allocation percentage by system, staff calculated a reduction of $252 for water and $248 for wastewater.

Table 14-1

| Computer Maintenance Expense | |
|---|---|
| Year | Expense |
| 2009 | $9,241 |
| 2010 | $10,476 |
| 2011 | $7,714 |
| 2012 | $7,975 |
| 2013 | $8,594 |

As mentioned previously in Issue 3, the Commission altered its treatment of divestitures, so that any adjustment related to UI divested systems was net of any UI acquisitions, and, based on 2015 total ERCs, a divesture adjustment is no longer necessary. Accordingly, an adjustment to computer maintenance expense related to divestitures is no longer necessary.

Gain on Sale of Vehicles

Labrador reported in its 2013 Annual Report, Gains on Sale of Vehicles of $743 for 2012 and $411 for 2013. Staff reviewed the gains resulting from the sale of property and sent a data request to the Utility for support documentation regarding the disposition and allocation calculations for the gains. In response to a staff data request, Labrador provided journal entries and other supporting documentation for the gains. Staff reviewed the documentation and believes the gains should be amortized over five years, in the amount of $231 annually. Accordingly, staff recommends that the operating expenses be reduced by $116 for water and $114 for wastewater.

Property Tax Adjustment Due to Change in Millage Rate

In its MFRs, the Utility recorded $39,180 for property taxes for the test year. According to the Pasco County Tax Collector's website, the 2014 property tax millage rate for Labrador has changed from 1.69614 to 1.68154, which represents a decrease of .01468. Staff believes this represents a known and measurable change from 2013 property taxes. Based on the above, staff recommends that property taxes be reduced by $259, which results in a decrease of $82 for water and $177 for wastewater.

Conclusion

Based on the above, staff recommends that operating expenses be increased by $13,266 for water and decreased by $10,337 for wastewater to reflect the appropriate level of operating expenses, as shown in Table 14-2.

Table 14-2

| Summary of Further Adjustments to Operating Expenses | | | |
|---|---|---|---|
| | | Water | Wastewater |
| | | | |
| 1 | Audit Finding No. 6 | $14,160 | ($14,052) |
| 2 | Contractual Services - Other | | |
| 3 | Internet Supplier | (39) | (39) |
| 4 | Other Outside Services | (51) | (51) |
| 5 | Miscellaneous Expense -Rosen Hotel | (131) | (128) |
| 6 | Land Lease Expense | (427) | (243) |
| 7 | Pro Forma Gravity Collection | 0 | 6,020 |
| 8 | Chemicals | 734 | (1,273) |
| 9 | Excessive Accounted for Water | (497) | 0 |
| 10 | Office Landscaping/Mowing | (33) | (32) |
| 11 | Computer Maintenance Expense | (252) | (248) |
| 12 | Gain on Sale of Vehicles | (116) | (114) |
| 13 | Property Tax Change in Millage Rate | (82) | (177) |
| | | $13,266 | ($10,337) |

**Issue 15**: What is the appropriate revenue requirement for the test year ended December 31, 2013?

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

| | Test Year Revenue | $ Increase/ (Decrease) | Revenue Requirement | % Increase/ (Decrease) |
|---|---|---|---|---|
| Water | $263,502 | $51,633 | $315,135 | 19.60% |
| Wastewater | $407,248 | $200,546 | $607,794 | 49.24% |

(Polk)

**Staff Analysis**: In its filing, Labrador requested revenue requirements to generate annual revenue of $359,086 and $693,295 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of $97,036, or approximately 37.03 percent, for water and $287,175, or approximately 70.71 percent, for wastewater.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of $315,135 and a wastewater revenue requirement of $607,794. The recommended water revenue requirement exceeds staff's adjusted test year revenue by $51,633, or 19.60 percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by $200,546 or 49.24 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn 8.25 percent return on its water rate base and 8.37 percent return on its wastewater rate base.

**Issue 16**: What are the appropriate rate structures and rates for Labrador's water and wastewater systems?

**Recommendation**: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. 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 ten days of the date of the notice. (Bruce)

**Staff Analysis:**

**Water Rates**

Labrador is located in Pasco County within the Southwest Florida Water Management District (SWFWMD). The Utility provides water service to approximately 856 residential customers in a mobile home community, 1 irrigation customer, and 5 general service customers. One of the general service customers is a 274 unit RV park. Approximately 30 percent of the residential customer bills during the test year had zero gallons, indicating a very seasonal customer base. The average residential water demand is 1,412 gallons per month. The average residential water demand excluding zero gallon bills is 2,006 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers. In the Utility's last rate case, a BFC allocation of 40 percent was approved.

Staff performed an analysis of the Utility's billing data in order to evaluate 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; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In the instant docket, staff believes that it is not necessary to design a conservation-oriented rate structure with a separate tier for non-discretionary demand due to the Utility's highly seasonal customer base coupled with the low average monthly demand. Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when a Utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. Also, the average residential water demand has declined slightly since the last rate case. As a result, staff believes that it is appropriate to allocate 50 percent of the water revenue to the BFC for revenue stability purposes. No additional significant repression is anticipated.

Staff also evaluated whether a BFC for the RV park should be based on a 6-inch meter, 50 equivalent residential connections (ERCs), or the demand the RV park places on the water system. Assuming full occupancy of the RV park, the average water demand is 311 [1,025,000 gallons/(274 x 12)] gallons per month per lot. In the instant docket, staff believes an ERC is equal to the average residential water demand of 1,412 gallons. As a result, each RV park lot is .22 (311 gallons/1,412 gallons) ERCs and the entire RV park uses an average of 60 ERCs of water per month (.22 ERC x 274 lots). However, due to the transient nature of an RV park, staff believes the existing rate, based on the 6-inch meter, is appropriate.

Staff recommends a continuation of the BFC and uniform gallonage charge rate structure for all customers and a BFC allocation based on 50 percent of the water revenue requirement. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-A and 4-B.

**Wastewater Rates**

Labrador provides wastewater service to all 856 residential water customers and 3 of the general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap per month. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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.

The Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. Also, as mentioned previously, the customer base is highly seasonal. Therefore, an allocation of 50 percent of the wastewater revenue to the BFC is appropriate. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. Based on staff's review of the billing analysis, 84 percent of the water gallons are captured at the 6,000 gallon consumption level. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. For this reason, staff recommends that the gallonage cap of 10,000 per month be reduced to 6,000 gallons. 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. Furthermore, staff recommends a BFC allocation based on 50 percent of the wastewater revenue requirement. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-C and 4-D.

<u>Conclusion</u>

Based on the foregoing, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. 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 ten days of the date of the notice.

**Issue 17**: In determining whether any portion of the water and/or wastewater interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation**: The appropriate 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. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this methodology, no refund is necessary for water or wastewater. As a result, the corporate undertaking amount of $68,706 should be released. (Polk)

**Staff Analysis**: By Order No. PSC-14-0695-FOF-WS, the Commission authorized the collection of interim water rates, and required the Utility to hold $68,706 subject to refund in this docket of the current water and wastewater revenues subject to refund if necessary, pursuant to Section 367.082, F.S.[36] 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 in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Labrador's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, staff calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff calculated an adjusted interim revenue requirement of $302,026 for water. The adjusted water interim revenue requirement of $302,026 is higher than the interim revenue requirement of $264,917 granted in the Interim Order. As a result, no refund is necessary for water. Furthermore, using the principles discussed above, staff calculated an adjusted interim revenue requirement of $588,604 for wastewater. The adjusted wastewater interim revenue requirement of $588,604 is higher than the interim revenue requirement of $410,128 granted in the Interim Order. As a result, no refund is necessary for wastewater. Based on the above, staff recommends that the corporate undertaking amount of $68,706 be released.

[36] Order No. PSC-14-0695-FOF-WS, issued December 15, 2014, in Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

**Issue 18**: 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 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 regulatory assessment fees (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. Labrador 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. (Bruce, T. Brown)

**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 reduction is $13,657 for water and $13,424 for wastewater. Using Labrador's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Labrador should also be required to file a proposed customer notice setting forth the lower rates and the reason for the 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 19**: Should Labrador 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 National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated primary accounts with the Commission approved adjustments?

**Recommendation**: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. (Polk)

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

The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. All support documentation should follow the guidelines set forth in Rule 25-30.450, F.A.C., which states:

> In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

**Issue 20**: 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 until the Utility provides proof of adjustments to all applicable NARUC USOA accounts and 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, and the corporate undertaking should be released. (Mapp, Crawford)

**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 until the Utility provides proof of adjustments to all applicable NARUC USOA accounts and 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, and the corporate undertaking should be released.

 

**Labrador Utilities, Inc.**
**Schedule of Water Rate Base**
**Test Year Ended 12/31/13**

**Schedule No. 1-A**
**Docket No. 140135-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year |
|---|---|---|---|---|---|---|
| 1 | Plant in Service | $934,990 | $73,246 | $1,008,236 | $48,541 | $1,056,777 |
| 2 | Land and Land Rights | 540 | (3) | 537 | 0 | 537 |
| 3 | Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 | Accumulated Depreciation | (375,176) | 20,140 | (355,036) | 37,415 | (317,621) |
| 5 | CIAC | (342) | 0 | (342) | 0 | (342) |
| 6 | Amortization of CIAC | 64 | 0 | 64 | 0 | 64 |
| 7 | Net Debit Deferred Income Taxes | 0 | 1,644 | 1,644 | (1,644) | 0 |
| 8 | CWIP | 94,653 | (94,653) | 0 | 0 | 0 |
| 9 | Net Acquisition Adjustment | (257,102) | 257,102 | 0 | 0 | 0 |
| 10 | Working Capital Allowance | 0 | 25,633 | 25,633 | (6,570) | 19,063 |
| 11 | **Rate Base** | $397,627 | $283,109 | $680,736 | $77,742 | $758,478 |

| | **Labrador Utilities, Inc.**<br>**Schedule of Wastewater Rate Base**<br>**Test Year Ended 12/31/13** | | | | | **Schedule No. 1-B**<br>**Docket No. 140135-WS** |
|---|---|---|---|---|---|---|
| | **Description** | **Test Year Per Utility** | **Utility Adjust-ments** | **Adjusted Test Year Per Utility** | **Staff Adjust-ments** | **Staff Adjusted Test Year** |
| 1 | Plant in Service | $2,086,875 | $653,285 | $2,740,160 | ($63,083) | $2,677,077 |
| 2 | Land and Land Rights | 0 | 0 | 0 | 0 | 0 |
| 3 | Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 | Accumulated Depreciation | (876,820) | (16,983) | (893,803) | 86,895 | (806,908) |
| 5 | CIAC | 0 | 0 | 0 | 0 | 0 |
| 6 | Amortization of CIAC | 0 | 0 | 0 | 0 | 0 |
| 7 | CWIP | 1,565 | (1,565) | 0 | 0 | 0 |
| 8 | Net Debit Deferred Income Taxes | 0 | 1,617 | 1,617 | (1,617) | 0 |
| 9 | Working Capital Allowance | 0 | 38,148 | 38,148 | (9,371) | 28,777 |
| 10 | **Rate Base** | $1,211,620 | $674,502 | $1,886,122 | $12,824 | $1,898,946 |

**Labrador Utilities, Inc.**
**Capital Structure-Simple Average**
**Test Year Ended 12/31/13**

**Schedule No. 2**
**Docket No. 140135-WS**

| | Description | Total Capital | Specific Adjust-ments | Subtotal Adjusted Capital | Prorata Adjust-ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost |
|---|---|---|---|---|---|---|---|---|---|
| **Per Utility** | | | | | | | | | |
| 1 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($178,709,368) | $1,290,632 | 50.28% | 6.64% | 3.34% |
| 2 | Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,077,773) | 22,227 | 0.87% | 8.48% | 0.07% |
| 3 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | 174,356,625 | 0 | 174,356,625 | (173,106,458) | 1,250,167 | 48.70% | 10.43% | 5.08% |
| 5 | Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.15% | 6.00% | 0.01% |
| 6 | Deferred Income Taxes | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 7 | **Total Capital** | $357,460,458 | $0 | $357,460,458 | ($354,893,599) | $2,566,859 | 100.00% | | 8.50% |
| **Per Staff** | | | | | | | | | |
| 8 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($178,675,879) | $1,324,121 | 49.83% | 6.64% | 3.31% |
| 9 | Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,077,196) | 22,804 | 0.86% | 2.82% | 0.02% |
| 10 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 11 | Common Equity | 174,356,625 | 0 | 174,356,625 | (173,074,018) | 1,282,607 | 48.27% | 10.43% | 5.03% |
| 12 | Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.14% | 2.00% | 0.00% |
| 13 | Deferred Income Taxes | 0 | 24,058 | 24,058 | 0 | 24,058 | 0.91% | 0.00% | 0.00% |
| 14 | **Total Capital** | $357,460,458 | $24,058 | $357,484,516 | ($354,827,092) | $2,657,424 | 100.00% | | 8.37% |

| | LOW | HIGH |
|---|---|---|
| RETURN ON EQUITY | 9.43% | 11.43% |
| OVERALL RATE OF RETURN | 7.89% | 8.85% |

**Labrador Utilities, Inc.**
**Statement of Water Operations**
**Test Year Ended 12/31/13**

**Schedule No. 3-A**
**Docket No. 140135-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
|---|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues:** | $264,903 | $94,183 | $359,086 | ($95,584) | $263,502 | $51,633<br>19.60% | $315,135 |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $202,275 | $2,785 | $205,060 | ($52,560) | $152,500 | | $152,500 |
| 3 | Depreciation | 40,877 | 3,961 | 44,838 | 2,704 | 47,542 | | 47,542 |
| 4 | Amortization | 0 | 0 | 0 | (116) | (116) | | (116) |
| 5 | Taxes Other Than Income | 31,188 | (732) | 30,456 | (2,625) | 27,831 | 2,324 | 30,154 |
| 6 | Income Taxes | (19,913) | 40,778 | 20,865 | (16,934) | 3,931 | 18,555 | 22,486 |
| 7 | **Total Operating Expense** | 254,427 | 46,792 | 301,219 | (69,532) | 231,687 | 20,879 | 252,566 |
| 8 | **Operating Income** | $10,476 | $47,391 | $57,867 | ($26,052) | $31,815 | $30,755 | $62,570 |
| 9 | **Rate Base** | $397,627 | | $680,736 | | $758,478 | | $758,478 |
| 10 | **Rate of Return** | 2.63% | | 8.50% | | 4.19% | | 8.25% |

**Labrador Utilities, Inc.**
**Statement of Wastewater Operations**
**Test Year Ended 12/31/13**

**Schedule No. 3-B**
**Docket No. 140135-WS**

| | Description | Test Year Per Utility | Utility Adjust-ments | Adjusted Test Year Per Utility | Staff Adjust-ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
|---|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues:** | $406,290 | $287,005 | $693,295 | ($286,047) | $407,248 | $200,546 | $607,794 |
| | | | | | | | 49.24% | |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $286,328 | $18,853 | $305,181 | ($74,968) | $230,213 | | $230,213 |
| 3 | Depreciation | 69,563 | 34,739 | 104,302 | (2,891) | 101,411 | | 101,411 |
| 4 | Amortization | 0 | 0 | 0 | (114) | (114) | | (114) |
| 5 | Taxes Other Than Income | 38,644 | 27,025 | 65,669 | (15,030) | 50,639 | 9,025 | 59,664 |
| 6 | Income Taxes | 0 | 57,808 | 57,808 | (72,198) | (14,390) | 72,070 | 57,679 |
| 7 | **Total Operating Expense** | 394,535 | 138,425 | 532,960 | (165,202) | 367,758 | 81,094 | 448,852 |
| 8 | **Operating Income** | $11,755 | $148,580 | $160,335 | ($120,845) | $39,490 | $119,452 | $158,942 |
| 9 | **Rate Base** | $1,211,620 | | $1,886,122 | | $1,898,946 | | $1,898,946 |
| 10 | **Rate of Return** | 0.97% | | 8.50% | | 2.08% | | 8.37% |

**Labrador Utilities, Inc.** **Schedule No. 1-C**
**Adjustments to Rate Base** **Docket No. 140135-WS**
**Test Year Ended 12/31/13**

| | **Explanation** | **Water** | **Wastewater** |
|---|---|---|---|
| | Plant In Service | | |
| 1 | Reflect uncontested rate base audit adjustments. - Issue 2 | ($30,035) | ($15,215) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 78,576 | (47,868) |
| | Total | $48,541 | ($63,083) |
| | Accumulated Depreciation | | |
| 1 | Reflect uncontested rate base audit adjustments. - Issue 2 | $27,069 | $82,700 |
| 2 | Reflect Pheonix project adjustments. - Issue 3 | 1,684 | 1,655 |
| 3 | Reflect supported pro forma plant additions. - Issue 4 | 8,662 | 2,540 |
| | Total | $37,415 | $86,895 |
| | Accumulated Depreciation | | |
| | To reflect net credit ADIT balance in capital structure. - Issue 9 | ($1,644) | ($1,617) |
| | Working Capital | | |
| | To reflect the appropriate working capital allowance. - Issue 6 | ($6,570) | ($9,371) |

**Labrador Utilities, Inc.**
**Adjustment to Operating Income**
**Test Year Ended 12/31/13**

**Schedule No. 3-C**
**Docket No. 140135-WS**

| | Explanation | Water | Wastewater |
|---|---|---|---|
| | Operating Revenues | | |
| 1 | Remove requested final revenue increase. | ($97,036) | ($287,175) |
| 2 | Reflect the appropriate amount of annualized revenues. - Issue 11 | 1,452 | 1,128 |
| | Total | ($95,584) | ($286,047) |
| | | | |
| | Operation and Maintenance Expense | | |
| 1 | Corresponding O&M expense related to pro forma plant. - Issue 4 | ($161) | $0 |
| 2 | Reflect uncontested NOI audit adjustments. - Issue 12 | (51,537) | (50,842) |
| 3 | Reflect appropriate rate case expense. - Issue 13 | (14,323) | (14,080) |
| 4 | Further Adjustments to O&M expense. - Issue 14 | 13,464 | (10,046) |
| | Total | ($52,560) | ($74,968) |
| | | | |
| | Depreciation Expense - Net | | |
| 1 | Reflect Pheonix project adjustments. - Issue 3 | ($1,684) | ($1,655) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 2,528 | (1,560) |
| 3 | Reflect uncontested audit adjustments. - Issue 12 | 1,859 | 324 |
| | Total | $2,704 | ($2,891) |
| | | | |
| | Amotization-Other Expense | | |
| | To reflect allocated gain on sale of vehicles. - Issue 14 | ($116) | ($114) |
| | | | |
| | Taxes Other Than Income | | |
| 1 | RAFs on revenue adjustments above. | ($4,301) | ($12,872) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 1,936 | (1,850) |
| 3 | Reflect uncontested NOI audit adjustments. - Issue 12 | (178) | (131) |
| 4 | Reflect appropriate test year property taxes. - Issue 14 | (82) | (177) |
| | Total | ($2,625) | ($15,030) |

| LABRADOR UTILITIES, INC.<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WATER RATE STRUCTURES AND RATES | | | | |
|---|---|---|---|---|
| Test Year Rate Structure and Rates (1) | | | Recommended Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC generated from current rates = 44% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 50% | |
| BFC | $10.48 | | BFC | $14.17 |
| Per kgal | $8.38 | | Per kgal | $9.00 |
| | | | | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $10.48 | | 0 | $14.17 |
| 1 | $18.86 | | 1 | $23.17 |
| 2 | $27.24 | | 2 | $32.17 |
| 6 | $60.76 | | 6 | $68.17 |
| 10 | $94.28 | | 10 | $104.17 |
| 20 | $178.08 | | 20 | $194.17 |
| Alternative 1 Rate Structure and Rates | | | Alternative 2 Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 45% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =40% | |
| BFC | $12.75 | | BFC | $11.33 |
| Per kgal | $9.90 | | Per kgal | $10.80 |
| | | | | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $12.75 | | 0 | $11.33 |
| 1 | $22.65 | | 1 | $22.13 |
| 2 | $32.55 | | 2 | $32.93 |
| 6 | $72.15 | | 6 | $76.13 |
| 10 | $111.75 | | 10 | $119.33 |
| 20 | $210.75 | | 20 | $227.33 |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.

**LABRADOR UTILITIES, INC.**
**MONTHLY WATER RATES** **SCHEDULE NO. 4-B**
**TEST YEAR ENDED DECEMBER 31, 2013** **DOCKET NO. 140135-WS**

| | UTILITY CURRENT RATES (1) | COMMISSION APPROVED INTERIM | UTILITY REQUESTED RATES | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
|---|---|---|---|---|---|
| **Residential and General Service (2)** | | | | | |
| Base Facility Charge | | | | | |
| 5/8" | $10.48 | $11.95 | $14.25 | $14.17 | $1.15 |
| 3/4" | $15.73 | $17.94 | $21.38 | $21.26 | $1.73 |
| 1" | $26.21 | $29.36 | $35.63 | $35.43 | $2.88 |
| 1-1/2" | $52.39 | $58.69 | $71.25 | $70.85 | $5.76 |
| 2" | $83.82 | $95.63 | $114.00 | $113.36 | $9.22 |
| 3" | $167.65 | $191.26 | $213.75 | $226.72 | $18.43 |
| 4" | $261.95 | $298.84 | $356.25 | $354.25 | $28.80 |
| 6" | $523.89 | $597.68 | $712.50 | $708.50 | $57.60 |
| Charge per 1,000 Gallons | $8.38 | $9.53 | $11.39 | $9.00 | $0.73 |
| **Irrigation** | | | | | |
| 2" | $83.82 | $95.63 | $114.00 | $113.36 | $9.22 |
| Charge per 1,000 Gallons - Irrigation | $8.38 | $9.53 | $11.39 | $9.00 | $0.73 |
| **Typical Residential 5/8" x 3/4" Meter Bill Comparison** | | | | | |
| 2,000 Gallons | $27.24 | $31.01 | $37.03 | $32.17 | |
| 6,000 Gallons | $60.76 | $69.13 | $82.59 | $68.17 | |
| 10,000 Gallons | $94.28 | $107.25 | $128.15 | $104.17 | |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.
2) The Utility's current residential rates only have an approved BFC for a 5/8" x 3/4" meter.

| LABRADOR UTILITIES, INC.<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WASTEWATER RATE STRUCTURES AND RATES | | | |
|---|---|---|---|
| Test Year Rate Structure and Rates(1) | | Recommended Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC generated from current rates = 60% | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =50% | |
| BFC | $22.62 | BFC | $27.81 |
| Per kgal | $10.09 | Per kgal | $19.46 |
| (10 kgal cap) | | (6 kgal cap) | |
| Typical Monthly Bills | | Typical Monthly Bills | |
| Consumption (kgals) | | Consumption (kgals) | |
| 0 | $22.62 | 0 | $27.23 |
| 1 | $32.71 | 1 | $47.27 |
| 2 | $42.80 | 2 | $66.73 |
| 3 | $52.89 | 3 | $86.19 |
| 4 | $62.98 | 4 | $105.65 |
| 5 | $73.07 | 5 | $125.11 |
| 6 | $83.16 | 6 | $144.57 |
| 10 | $123.52 | 10 | $144.57 |
| Alternative 1 Rate Structure and Rates | | Alternative 2 Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 55% | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =45% | |
| BFC | $30.59 | BFC | $25.03 |
| Per kgal | $17.52 | Per kgal | $21.41 |
| (6 kgal cap) | | (6 kgal cap) | |
| Typical Monthly Bills | | Typical Monthly Bills | |
| Consumption (kgals) | | Consumption (kgals) | |
| 0 | $30.59 | 0 | $25.03 |
| 1 | $48.11 | 1 | $46.44 |
| 2 | $65.63 | 2 | $67.85 |
| 3 | $83.15 | 3 | $89.26 |
| 4 | $100.67 | 4 | $110.67 |
| 5 | $118.19 | 5 | $132.08 |
| 6 | $135.71 | 6 | $153.49 |
| 10 | $135.71 | 10 | $153.49 |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.

# Item 6

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (P.Buys, King)
Division of Accounting and Finance (Monroe, Norris)
Division of Economics (Bruce, Hudson)
Office of the General Counsel (Villafrate)

**RE:** Docket No. 150018-WS – Joint application of GCP REIT II and Sun Communities Operating Limited Partnership for authority for transfer of majority organizational control of GCP Fairfield Village, LLC.

**AGENDA:** 05/05/15 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

GCP Fairfield Village, LLC, (Fairfield) is a Class C water and wastewater utility serving approximately 260 customers in Marion County. According to Fairfield's 2013 Annual Report, total gross revenues were $9,977.

Prior to 2007, Fairfield was statutorily exempt from the Commission's regulation because it provided water and wastewater services without specific compensation. However, in response to certain water use permitting requirements, Fairfield began charging for water to discourage excessive usage. As a result, Fairfield lost its statutory exemption and obtained Certificate Nos.

640-W and 549-S from the Commission.[1] Fairfield never collected rates for wastewater services; therefore, the Commission subsequently cancelled wastewater Certificate No. 594-S and approved the water conservation rates as part of a settlement agreement.[2] On May 23, 2013, the Commission approved the transfer of Century-Fairfield water system and Certificate No. 640-W to GCP Fairfield Village, LLC.[3]

On January 6, 2015, a joint application for authority for transfer of majority organizational control was filed by GCP REIT II and Sun Communities Operating Limited Partnership. The application, as filed, did not have any deficiencies. The Commission has jurisdiction in this case pursuant to Section 367.071, Florida Statutes (F.S.).

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[1] Order No. PSC-08-0067-FOF-WS, issued January 29, 2008, in Docket No. 070548-WS, In re: Application for certificates to provide water and wastewater services in Marion County by Century – Fairfield Village, Ltd.

[2] Order No. PSC-08-0435-PAA-WS, issued July 7, 2008, in Docket No. 070548-WS, In re: Application for certificates to provide water and wastewater services in Marion County by Century – Fairfield Village, Ltd.

[3] Order No. PSC-13-0217-PAA-WU, issued May 23, 2013, in Docket No. 120188-WU, In re: Application for approval of transfer of Century-Fairfield Village, Ltd. Water system and Certificate No. 640-W in Marion County to GCP Fairfield Village, LLC.

## Discussion of Issues

**Issue 1**: Should the application for transfer of majority organizational control of GCP Fairfield Village, LLC, in Marion County to Sun Communities Operating Limited Partnership be approved?

**Recommendation**: Yes. The transfer of majority organizational control to Sun Communities Operating Limited Partnership (Sun Communities OLP), is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water certificate, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, (F.A.C.). (P. Buys, Bruce, Monroe)

**Staff Analysis**: This application is for the transfer of majority organizational control of GCP Fairfield Village, LLC, to Sun Communities Operating Limited Partnership. Based on staff's review, the application is in compliance with the governing statue, Section 367.071, F.S., and Rule 25-30.037(3), F.A.C., concerning applications for transfer of majority organizational control.

Noticing, Territory, and Ownership

The applicant provided proof of compliance with the noticing provisions set forth in Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed with the Commission, and the time for doing so has expired. The notice contains a description of the territory for Fairfield, which is appended to this recommendation as Attachment A. The application does not involve transfer of the facilities and Fairfield will continue to lease the land where the water treatment plant is currently located. The evidence of the lease has previously been provided to the Commission.[4]

Technical and Financial Ability

Pursuant to Rule 25-30.037(3)(f), F.A.C., the application contains statements describing the technical and financial ability of the applicant to provide service to the proposed service area. Staff reviewed the consolidated balance sheet of Sun Communities, Inc., (parent company of Sun Communities OLP) and the attestation in the transfer application asserting that Sun Communities, Inc., has the financial ability required to fund future capital expenditures on an "as needed" basis. According to the application, there will be no immediate change in the day-to-day operational management of the systems. Sun Communities OLP is currently engaged in water and wastewater utility service operations in Florida through its ownership of the Saddle Oak Club system in Marion County, Buttonwood Bay in Highlands County, and Water Oak in

[4] Order No. PSC-13-0217-PAA-WU, issued May 23, 2013, in Docket No. 120188-WU, In re: Application for approval of transfer of Century-Fairfield Village, Ltd. Water system and Certificate No. 640-W in Marion County to GCP Fairfield Village, LLC.

Lake County which are regulated by the Commission. In addition, Sun Communities, Inc., also operates approximately seven systems either unregulated or regulated by county governments.

Fairfield's lead and copper analysis of drinking water exceeded the State Action Level of 0.015 ppm for lead in 2012. The Florida Department of Environmental Protection (DEP) did not take action until 2014. Fairfield provided new samples in 2014 which were within the State Action Level. DEP directed notices to be given, additional samples to be provided, and implementation of a corrosion control treatment plan. Fairfield complied with the notices and additional samples, but intends to ask to defer the plan until after July 2015. Based on the above, staff recommends that Fairfield and Sun Communities have demonstrated the technical and financial capability to provide service to the existing service territory.

Rates and Charges

The Utility's rates and charges, including miscellaneous service charges and a late payment fee, were last approved effective July 7, 2008.[5] The Utility's existing rates and charges are shown on Schedule No. 1. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges remain in effect until a change is authorized by this Commission in a subsequent proceeding.

Conclusion

Based on the above, staff recommends that the transfer of majority organizational control to Sun Communities Operating Limited Partnership is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water certificate, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, F.A.C.

[5] Order No. PSC-08-0435-PAA-WS, issued July 7, 2008, in Docket No. 070548-WS, In re: Application for certificates to provide water and wastewater service in Marion County by Century - Fairfield Village, Ltd.

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

**Recommendation**: Yes. If the Commission approves staff's recommendation in Issue 1, this docket should be closed. (Villafrate)

**Staff Analysis**: If the Commission approves staff's recommendation in Issue 1, this docket should be closed.

**GCP Fairfield Village, Ltd.**

**Marion County**

**Description of Water Service Territory**

Commence at the West ¼ corner of Section 4, Township 16 south, Range 21 East, Marion County, Florida; thence North 89°56'18" East 50.00 feet to the Easterly right-of-way line of Southwest 60th Avenue (100 feet wide) for the Point of Beginning; thence North 00°16'09" East along the said Easterly right-of-way 1.41 feet; thence North 00°17'45" East continuing along said Easterly right-of-way 1318.59 feet to the North boundary line of South ½ of the NW ¼ of aforesaid Section 4; thence North 89°56'18" East along the said North boundary line 1276.58 feet; thence South 00°15'45" West 1979.61 feet more or less to the SE corner of the North ½ of the NW ¼ of the SW ¼ of said Section 4; thence South 89°56'25" West along South boundary line of the said North ½, 1277.42 feet to the aforesaid Easterly right-of-way line of Southwest 60th Avenue; thence North 00°16'09" East along the said Easterly right-of-way 659.57 feet to the Point of Beginning.

**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes**

**GCP Fairfield Village, Ltd.**

**pursuant to**

**Certificate Number 640-W**

to provide water service in Marion County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

| Order Number | Date Issued | Docket Number | Filing Type |
|---|---|---|---|
| PSC-08-0067-FOF -WS | 01/29/08 | 070548-WS | Original Certificate |
| PSC-13-0217-PAA-WU | 05/23/13 | 120188-WU | Transfer of Certificate |
| * | * | 150018-WU | Transfer of Majority Organizational Control |

*Order Number and date to be provided at time of issue.

**GCP Fairfield Village, LLC**
**Monthly Water Rates**

**Residential Service and General Service**

| | |
|---|---|
| Base Facility Charge | $0 |
| Charge Per 1,000 gallons | |
| 0-7,000 gallons | $3.50 |
| 7,001-12,000 gallons | $5.50 |
| Over 12,000 gallons | $0 |

**Miscellaneous Service Charges**

| | Normal Business Hours | After Hours |
|---|---|---|
| Initial Connection Charge | $30.00 | $40.00 |
| Normal Reconnection Charge | $30.00 | $40.00 |
| Violation Reconnection Charge | $30.00 | $40.00 |
| Premises Visit Charge (in lieu of disconnection) | $30.00 | $40.00 |
| Late Payment Charge | $5.00 | N/A |

# Item 7

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (P. Buys, King)
Division of Accounting and Finance (T. Brown, Norris)
Division of Economics (Bruce, Hudson)
Office of the General Counsel (Janjic)

**RE:** Docket No. 150020-WS – Joint application of GCP REIT II and Sun Communities Operating Limited Partnership for authority for transfer of majority organizational control of Sunlake Estates Utilities, L.L.C.

**AGENDA:** 05/05/15 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

Sunlake Estates Utilities, LLC, (Sunlake) is a water and wastewater utility serving approximately 460 customers in Lake County. Sunlake did not provide any annual report information as it has not started charging water and wastewater rates.

Prior to 2014, Sunlake was statutorily exempt from the Commission's regulation because it provided water and wastewater services without specific compensation. However, in response to certain water usage permitting requirements, Sunlake wanted to start charging for water to discourage excess usage. On June 27, 2013, Sunlake filed an application for original water and wastewater certificates and initial rates and charges. The Commission approved the petition in January, 2014.[1]

On January 6, 2015, a joint application for authority for transfer of majority organizational control was filed by GCP REIT II and Sun Communities Operating Limited Partnership. The application, as filed, did not have any deficiencies. The Commission has jurisdiction in this case pursuant to Section 367.071, Florida Statutes (F.S.).

[1] Order No. PSC-14-0018-PAA-WS, issued January 7, 2014, in Docket No. 130180-WS, In re: Application for original certificates to provide water and wastewater services in Lake County by Sunlake Estates Utilities, LLC.

## Discussion of Issues

**Issue 1**: Should the application for transfer of majority organizational control of Sunlake Estates Utilities, LLC, in Lake County to Sun Communities Operating Limited Partnership be approved?

**Recommendation**: Yes. The transfer of majority organizational control to Sun Communities Operating Limited Partnership (Sun Communities OLP) is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water and wastewater certificates, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariff pages reflecting the transfer should be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, (F.A.C.). (P. Buys, T. Brown, Bruce)

**Staff Analysis**: This application is for the transfer of majority organizational control of Sunlake Estates Utilities, LLC, to Sun Communities Operating Limited Partnership. Based on staff's review, the application is in compliance with the governing statue, Section 367.071, F.S., and Rule 25-30.037(3), F.A.C., concerning applications for transfer of majority organizational control.

Noticing, Territory, and Ownership

The applicant provided proof of compliance with the noticing provisions set forth in Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed with the Commission, and the time for doing so has expired. The notice contains a description of the territory for Sunlake, which is appended to this recommendation as Attachment A. The application does not involve transfer of the facilities and Sunlake will continue to lease the land where the water and wastewater treatment plants are currently located. The evidence of the lease has previously been provided to the Commission.[2]

Technical and Financial Ability

Pursuant to Rule 25-30.037(3)(f), F.A.C., the application contains statements describing the technical and financial ability of the applicant to provide service to the proposed service area. Staff has reviewed the consolidated balance sheet of Sun Communities, Inc., (parent company of Sun Communities OLP) and the attestation in the transfer application asserting that Sun Communities, Inc., has the financial ability required to fund future capital expenditures on an "as needed" basis.[3] Based on its review, staff believes the documents show that Sun Communities OLP has the financial capability to operate the water and wastewater systems. According to the application, there will be no immediate change in the day-to-day operational management of the systems. Sun Communities OLP is currently engaged in water and wastewater utility service operations in Florida through its ownership of the Saddle Oak Club system in Marion County, Buttonwood Bay in Highlands County, and Water Oak in Lake County which are regulated by

[2] Order No. PSC-14-0018-PAA-WS, issued January 7, 2014, in Docket No. 130180-WS, In re: Application for original certificates to provide water and wastewater services in Lake County by Sunlake Estates Utilities, LLC.
[3] Document No. 00116-15, in Docket No. 150020-WS.

the Commission. In addition, Sun Communities, Inc., also operates approximately seven systems that are either unregulated or regulated by county governments. Staff recommends that the water and wastewater systems appear to be in satisfactory conditions and are in compliance with Florida Department of Environmental Protection. Based on the above, it appears that Sunlake and Sun Communities OLP has demonstrated the technical and financial ability to provide service to the existing service territory.

Rates and Charges

The Utility's rates and charges were last approved in an original certificate docket in 2014.[4] The Utility's existing rates and charges are shown on Schedule Nos. 1 and 2. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges remain in effect until a change is authorized by this Commission in a subsequent proceeding.

Conclusion

Based on the above, staff recommends that the transfer of majority organizational control to Sun Communities Operating Limited Partnership is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the water and wastewater certificates, with the territory described in Attachment A. The existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475, F.A.C.

[4] Order No. PSC-14-0018-PAA-WS, issued January 7, 2014, in Docket No. 130180-WS, In re: Application for original certificates to provide water and wastewater service in Lake County by Sunlake Estates Utilities, L.L.C.

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

**Recommendation**: Yes. If the Commission approves staff's recommendation in Issue 1, this docket should be closed. (Janjic)

**Staff Analysis**: If the Commission approves staff's recommendation in Issue 1, this docket should be closed.

**Sunlake Estates Utilities, L.L.C.**

**Lake County**

**Description of Water and Wastewater Territory**

A portion of Sections 12 and 13, Township 18 South, Range 25 East, being in Lake County, Florida being described as follows:

Commence at the southwest corner of the Southeast ¼ of the Southwest ¼ of said Section 12, and run N.89°50'56"W, 400.00 feet, for a Point of Beginning; thence, continue, N.89°50'56"W, along said south boundary line 253.58 feet; thence, leaving said south boundary line, N.00°10'35"E.1253.54 feet; thence, N.89°48'54"W., 35.87 feet; thence, N.00°21'15"W., 42.00 feet to the south right-of-way line of South Em-En-El Grove Road; thence, S.89°48'54"E., along said south right-of-way line, 689.00 feet; thence, continue, S.89°48'54"E., along said south right-of-way line, 95.23 feet to a point of curvature; thence, along said right-of-way line, along said curve to the right, having a radius of 560.19 feet, an arc length of 274.35 feet, a chord length of 271.62 feet and a chord bearing of S.75°47'05"E., thence, S.61°45'16"E., along said south right-of-way line, 100.80 feet; thence, along said south right-of-way line, along a curve to the left, having a radius of 385.00 feet, an arc length of 374.33 feet, a chord length of 359.76 feet and a chord bearing of S.89°36'28"E.; thence, N.62°32'19"E., along said south right-of-way line, 100.00 feet; thence, along said south right-of-way line, along a curve to the right, having a radius of 597.00 feet, an arc length of 288.08 feet, a chord length of 285.29 feet and a chord bearing of N.76°21'42"E.; thence, S.89°48'54"E., along said south right-of-way line, 153.67 feet; thence, S.89°55'13"E., along said south right-of-way line, 1280.81 feet; thence, leaving said south right-of-way line, S.00°06'53"E., along the west right-of-way line of Thomas Boat Landing Road, 1293.73 feet to the south boundary line of said Section 12; thence, continue along said west right-of-way line, S.00°22'13"W., 1007.84 feet to the ordinary high water line of Lake Yale; thence, leaving said west right-of-way line, along the ordinary high water line of Lake Yale, the following nineteen (19) courses; (1) thence, N.69°33'59"W., 58.11 feet; (2) thence, N.86°38'05"W., 24.79 feet; (3) thence, S.80°09'07'W., 49.34 feet; (4) thence, S.59°17'50"W., 105.49 feet; (5) thence, S.51°54'45"W., 56.92 feet; (6) thence, S.53°46'02"W., 48.77 feet; (7) thence, S.49°15'28"W., 59.70 feet; (8) thence, S.58°19'14"W., 75.82 feet; (9) thence, S.47°08'38"W., 41.26 feet; (10) thence, S.55°39'24"W., 51.45 feet; (11) thence, S.62°08'53"W., 111.80 feet; (12) thence, S.64°27'27"W., 55.68 feet; (13) thence, S.52°28'52"W., 58.80 feet; (14) thence, S.55°19'56"W., 58.33 feet; (15) thence, S.53°53'24"W., 53.84 feet; (16) thence, S.46°00'44"W., 53.77 feet; (17) thence, S.50°09'30"W., 58.94 feet; (18) thence, S.46°55'52"W., 20.66 feet; (19) thence, S.72°48'21"W., 32.13 feet; thence, leaving the ordinary high water line of Lake Yale, N.45°14'05"W., 285.56 feet; thence, N.89°47'48"W., 165.69 feet; thence, N.89°51'08"W., 1339.46 feet; thence, N.00°08'20"E., along said west boundary line of the Northeast ¼ of the Northwest ¼ of said Section 13, 992.97 feet; thence, leaving said west boundary line, N.89°52'52"W., 400.00 feet; thence, N.00°08'20"W., 330.65 feet to the Point of Beginning.

AND

Commence at the southwest corner of the Southeast ¼ of the Southwest ¼ of Section 12, Township 18 South, Range 25 East, Lake County, Florida and run N.89°50'56"W., along the south boundary line of Block 57 of the Plat of HIGLEY, as filed in or about April 2, 1884, in the Public Records of Lake County, Florida, 400.00 feet to a point on the west boundary line of the eastern 400 feet of the North ¼ of Block 58 of said Plat of HIGLEY; thence, continue, N.89°50'56"W., along said south boundary line, 253.58 feet, to a point on the east boundary line of the west 674.28 feet of said Block 57; thence, leaving said south boundary line, N.00°10'35"E., along said east boundary line, 1253.54 feet; thence, leaving said east boundary line, N.89°48'54"W., 35.87 feet; thence, N.00°21'15"W., 42.00 feet to the south right-of-way of South Em-En-El Grove Road; thence, S.89°48'54"E., 689.00 feet; thence, continue, S.89°48'54"E., 375.51 feet for a Point of Beginning; thence, continue, S.89°48'54"E., 508.40 feet to the most easterly corner of said Tract "A"; thence, S.62°32'19"W; thence, along a curve to the right, having a radius of 319.00 feet, an arc length of 310.16 feet, a chord length of 298.08 feet and a chord bearing of N.89°36'28"W.; thence, N.61°45'16"W., 116.97 feet to the Point of Beginning.

AND

Commence at the southwest corner of the Southeast ¼ of the Southwest ¼ of Section 12, Township 18 South, Range 25 East, Lake County, Florida and run N.89°50'56"W., 400.00 feet; thence, continue, N.89°50'56"W., 253.58 feet,; thence, N.00°10'35"E., 1253.54 feet; thence, N.89°48'54"W., 35.87 feet; thence N.00°21'15"W., 75.00 feet to the north right-of-way line of South Em-En-El Grove Road; thence, S.89°48'54"E., along said north right-of-way line, 1116.00 feet for a Point of Beginning; thence, N.00°06'04"E., 500.00 feet; thence, S.89°48'54"E., 900.00 feet; thence, S.89°55'13"E., 1311.80 feet; thence, S.00°06'53"E., 500.00 feet to the northeast corner of the Southwest ¼ of the Southeast ¼ of Section 12, Township 18 South, Range 25 East; thence, leaving said east boundary line, N.89°55'13"W., along the north right-of-way line of South Em-En-El Grove Road, 1313.69 feet; thence, N.89°48'54"W., along said north right-of-way line, 900.00 feet to the Point of Beginning.

**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes**

**Sunlake Estates Utilities, L.L.C.**

**pursuant to**

**Certificate Number 665-W**

to provide water service in Lake County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rule Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

| Order Number | Date Issued | Docket Number | Filing Type |
|---|---|---|---|
| PSC-14-0018-PAA-WS | January 7, 2014 | 130180-WS | Original Certificate |
| * | * | 150020-WS | Transfer of Majority Organizational Control |

*Order Number and date to be provided at time of issue.

**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes**

**Sunlake Estates Utilities, L.L.C.**

**pursuant to**

**Certificate Number 569-S**

to provide wastewater service in Lake County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rule Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

| Order Number | Date Issued | Docket Number | Filing Type |
|---|---|---|---|
| PSC-14-0018-PAA-WS | January 7, 2014 | 130180-WS | Original Certificate |
| * | * | 150020-WS | Transfer of Majority Organizational Control |

*Order Number and date to be provided at time of issue.

**Sunlake Estates Utilities, LLC**
**Monthly Water Rates**

**Residential and General Service**

| | |
|---|---|
| Base Facility Charge by Meter Size | |
| 5/8" x 3/4" | $10.12 |
| 3/4" | $15.18 |
| 1" | $25.29 |
| 1 1/2" | $50.18 |
| 2" | $80.28 |
| 3" | $160.56 |
| 4" | $250.88 |
| 6" | $501.76 |
| | |
| Charge Per 1,000 Gallons - Residential | |
| 0-5,000 Gallons | $1.06 |
| Over 5,000 Gallons | $1.77 |
| | |
| Charge Per 1,000 Gallons – General Service | $1.49 |

**Initial Customer Deposits**

| | |
|---|---|
| Residential Service | |
| 5/8" x 3/4" | $60.00 |
| | |
| General Service | |
| All Meter Sizes | Two times the average estimated bill |

**Miscellaneous Service Charges**

| | Normal Business Hours | After Hours |
|---|---|---|
| Initial Connection Charge | $21.00 | $42.00 |
| Normal Reconnection Charge | $21.00 | $42.00 |
| Violation Reconnection Charge | $21.00 | $42.00 |
| Premises Visit Charge (in lieu of disconnection) | $21.00 | $42.00 |
| NSF Charge | Pursuant to Statute | |
| Late Payment Charge | $5.00 | |

**Service Availability Charge**

**Meter Installation Charge**

| | |
|---|---|
| 5/8 x 3/4" | $250.00 |

**Sunlake Estates Utilities, LLC**
**Monthly Wastewater Rates**

| | |
|---|---|
| <u>**Residential Service**</u> | |
| Base Facility Charge – All Meter Sizes | $17.56 |
| | |
| Charge Per 1,000 gallons | $2.66 |
| 10,000 gallon cap | |
| | |
| <u>**General Service**</u> | |
| Base Facility Charge by Meter Size | |
| 5/8" x 3/4" | $17.56 |
| 3/4" | $26.34 |
| 1" | $43.90 |
| 1 1/2" | $87.80 |
| 2" | $140.48 |
| 3" | $280.96 |
| 4" | $439.00 |
| 6" | $878.00 |
| | |
| Charge Per 1,000 gallons | $3.19 |

**Initial Customer Deposits**

| | |
|---|---|
| Residential Service | |
| 5/8" x 3/4" | $88.00 |
| | |
| General Service | |
| All Meter Sizes | Two times the average estimated bill |

**Miscellaneous Service Charges**

| | Normal Business Hours | After Hours |
|---|---|---|
| Initial Connection Charge | $21.00 | $42.00 |
| Normal Reconnection Charge | $21.00 | $42.00 |
| Violation Reconnection Charge | Actual Cost | Actual Cost |
| Premises Visit Charge (in lieu of disconnection) | $21.00 | $42.00 |
| NSF Charge | Pursuant to Statute | |
| Late Payment Charge | $5.00 | |

# Item 8

FILED APR 23, 2015
DOCUMENT NO. 02257-15
FPSC - COMMISSION CLERK

State of Florida

# Public Service Commission

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

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

**DATE:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Ellis)
Division of Accounting and Finance (T. Brown, Norris)
Office of the General Counsel (Brownless)

**RE:** Docket No. 140174-WU – Application for approval of transfer of Certificate No. 117-W from Crestridge Utility Corporation to Crestridge Utilities, LLC, in Pasco County.

Docket No. 140176-WU – Application for approval of transfer of Certificate No. 116-W from Holiday Gardens Utilities, Inc. to Holiday Gardens Utilities, LLC, in Pasco County.

**AGENDA:** 05/05/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

Crestridge Utility Corporation (Crestridge) is a Class C water utility located in Pasco County, serving approximately 615 residential customers. Holiday Gardens Utilities, Inc., (Holiday Gardens) is a Class C water utility also located in Pasco County, serving approximately 449 residential customers and 7 general service customers. Both Utilities are located in the Southwest Florida Water Management District (SWFWMD). Based on each Utility's 2013

Annual Reports, Crestridge indicates a total gross revenue of $93,421, while Holiday Gardens indicates a total gross revenue of $72,921.

Both Utilities have provided water service since at least 1967. In 1973, Crestridge was issued Certificate No. 117-W and Holiday Gardens was issued Certificate No. 116-W. [1] Certificate 117-W has not been amended to include additional territory, but Certificate No. 116-W was last amended in Order No. PSC-93-1530-FOF-WU.[2] Rate base was last established for Crestridge by Order No. PSC-93-0012-FOF-WU and for Holiday Gardens by Order No. PSC-93-0013-FOF-WU.[3]

Crestridge and Holiday Gardens are jointly owned by Holiday-Gulf Homes, Inc. All three business entities are active corporations registered with the Florida Department of State's Division of Corporations. In addition to water service, Crestridge, and Holiday Gardens provide garbage collection and street lighting services to their respective service territories.

On September 10, 2014, separate applications were filed by Michael Smallridge for the transfer of Crestridge and Certificate No. 117-W, to Crestridge Utilities, LLC (Crestridge LLC) and for the transfer of Holiday Gardens, Inc. and Certificate No. 116-W to Holiday Gardens Utilities, LLC (Holiday Gardens LLC). Both Crestridge LLC and Holiday Gardens LLC (collectively, the LLCs) were registered with the Florida Department of State Division of Corporations on April 11, 2014.[4] Simultaneous with the filing of the transfer dockets, applications for staff-assisted rate cases (SARCs) for the LLCs were also filed by Mr. Smallridge.[5]

An informal meeting was held on February 26, 2015, regarding both the transfer and staff-assisted rate cases for both utilities. At this meeting, it was clarified that staff would only process the rate cases upon completion of the transfers.

This recommendation addresses the transfer of the water systems. The Commission has jurisdiction pursuant to Section 367.071, Florida Statutes (F.S.).

---

[1] Order No. 5674, issued March 8, 1973, in Docket No. 72589-W, In re: Application of Crestridge Utilities, Inc. for a certificate to operate a water utility in Pasco County and Order No. 5675, issued March 8, 1973, in Docket No. 72590-W, In re: Application of Holiday Gardens Utilities, Inc. for a certificate to operate a water utility in Pasco County.

[2] Order No. PSC-93-1530-FOF-WU, issued October 19, 1993, in Docket No. 930164-WU, In re: Application for Amendment of Certificate No. 116-W in Pasco County by Holiday Gardens Utilities, Inc.

[3] Order PSC-93-0012-FOF-WU, issued January 5, 1993, in Docket No. 920417-WU, In re: Application for a staff-assisted case in Pasco County by Crestridge Utility Corporation. and Order No. PSC-93-0013-FOF-WU, issued January 5, 1993, in Docket No. 920418-WU, In re: Application for a staff-assisted rate case by Holiday Gardens Utilities, Inc., in Pasco County.

[4] At this time both water services are being provided under the names of the LLCs. However, the certificated entities remain unchanged until the Commission approves the transfer of the certificates. Thus, for purposes of this recommendation, the name "Crestridge" and "Holiday Gardens" will apply to both the certificated entity and the LLC. Distinctions between the LLC and original certificated entities will be made in the text where necessary for clarity.

[5] Docket Nos. 140175-WU (Crestridge Utilities, LLC) and 140177-WU (Holiday Gardens Utilities, LLC).

## Discussion of Issues

**Issue 1**: Should the application for transfer of Certificate No. 117-W from Crestridge Utility Corporation to Crestridge Utilities, LLC and Certificate No. 116-W from Holiday Gardens Utilities, Inc. to Holiday Gardens Utilities, LLC be approved?

**Recommendation**: No. Given the delays and failures to respond to staff data requests, providing conflicting and incorrect information, delays in paying filing fees, and delays in filing customer notices, the applicant has failed to meet his burden of proof that the proposed transfers are in the public interest. Therefore, the applications for transfer of Certificate No. 117-W from Crestridge Utility Corporation to Crestridge Utilities, LLC, and of Certificate No. 116-W from Holiday Gardens Utilities, Inc., to Holiday Gardens Utilities, LLC, should be denied. (Ellis, Brownless, T. Brown, Norris)

**Staff Analysis**: On March 31, 2014, Michael Smallridge purchased the assets of both Crestridge and Holiday Gardens for $450,000. Mr. Smallridge was required to make a down payment of $25,000 at closing and execute a purchase money mortgage with owner financing in the amount of $425,000 at 7.5 percent interest for 12 years with a monthly payment of $4,484.71 until paid in full and to pay another $20,000 on or before January 31, 2015. In addition to the Utilities, Mr. Smallridge also purchased the recorded street lighting and trash collection districts for the Crest Ridge Gardens Subdivision and Holiday Gardens Unit One.[6] In the Agreement for Purchase and Sale of Water Assets (Purchase Agreement), the seller agreed to allow Mr. Smallridge to acquire title in the names "Holiday Gardens Utilities, LLC," and "Crestridge Utilities, LLC".[7]

On April 11, 2014, as contemplated by the Purchase Agreement, Mr. Smallridge did create and register Holiday Gardens Utilities, LLC, and Crestridge Utilities, LLC, with the Secretary of State. On August 8, 2014, the warranty deeds for all of the property on which both Utilities' facilities are located were executed in the names of the LLCs and subsequently recorded on September 18, 2014.[8] Mr. Smallridge signed the Promissory Note for the purchase of the Utilities on August 22, 2014, and commenced paying the $4,500 per month[9] mortgage on or about September 14, 2014. Title insurance policies were also issued for each of the utilities' properties on September 18, 2014.

On September 10, 2014, Mr. Smallridge filed applications for the transfer of Certificates Nos. 117-W and 116-W from Crestridge and Holiday Gardens to the LLCs. The filing fees of $1,500 for each utility as required by Rule 25-30.020, Florida Administrative Code (F.A.C.), were not provided at the time for either application.

Sections 367.045 and 367.071, F.S., and Rule 25-30.037, F.A.C., control the sale, assignment, or transfer of water and wastewater authorization (certificates), facilities or majority

[6] Crest Ridge Gardens Restrictions, Book 341, p. 438, Pasco County Public Records; Holiday Gardens Restrictions, Book 378, P. 165, Pasco County Public Records.
[7] Section 3.k.
[8] The warranty deed for Lot 692 of the Crest Ridge Gardens Unit Seven was recorded again on October 17, 2014, to reflect the addition of a date for the notary's signature.
[9] The Purchase Agreement and Promissory Note dated August 22, 2014, state that the monthly payment is $4,484.71. In response to a Staff Data Request, Mr.Smallridge indicated that he increased it to $4,500 per month.

operational control. In order for a sale or transfer to be approved, the applicant must demonstrate that the "proposed sale, assignment, or transfer is in the public interest and that the buyer, assignee or transferee will fulfill the commitments, obligations, and representations of the Utility."[10] Rule 25-30.037(j), F.A.C., further requires that the applicant demonstrate that the buyer has experience in water or wastewater utility operations and has the financial ability to provide service.

As discussed in more detail below, throughout this seven month process the applicant has repeatedly failed to provide requested relevant materials and documents necessary to evaluate his financial or managerial ability to operate these two utilities in accord with applicable Commission rules and regulations. In some instances, the applicant has provided responses that were incomplete or contained conflicting and incorrect information. As a result, the staff recommends that the applications for transfer of Certificate Nos. 116-W and 117-W be denied.

**Failure to Respond to Staff's Data Requests**

The applications as filed failed to include the information required by Rule 25-30.037(2), F.A.C. On October 7, 2014, staff requested payment of the filing fee ($1,500 for each utility) and additional data to clarify the applications and resolve several of the deficiencies. A due date for responses was set for November 5, 2014. However, no responses were received within the requested timeframe. Late-filed responses were received on November 10, 2014, which partially answered one deficiency. No filing fee was provided for either utility.

Without further responses from the applicant, staff again sent letters on January 12, 2015, requesting the payment of the filing fees and the additional information necessary to process the applications. A deadline for a response was set for January 22, 2015. Staff noted that the failure to pay the filing fees and provide the necessary information would result in a recommendation that the applications for transfer be denied. On January 23, 2015, partial responses were filed in the respective dockets and both filing fees were paid.

Staff continued a review of the filings, and determined that further information was necessary to approve the applications. On February 23, 2015, staff issued a second data request for each docket, including six questions, and requested responses by March 25, 2015. On March 18, 2015, the applicant filed responses to one question and provided information that rendered another question moot. No responses have been provided to date to the remaining four questions, including questions regarding financial information.

Staff sent a third set of data requests on March 4, 2015, with a total of 13 questions each, and requested responses by April 2, 2015. On March 10, 2015, staff amended the requests with an additional question that had been inadvertently omitted. On April 6, 2015, the applicant partially responded to Staff's Third Data Requests, but failed to respond to certain questions regarding financial information. Specifically, staff requested information concerning Mr. Smallridge's personal line of credit which was referenced in his meeting with Commission staff on February 26, 2015. Other than to confirm that he does have a line of credit, Mr. Smallridge did not provide the requested details regarding this account.

[10] Section 367.071(1), F.S.

**Conflicting Information**

In addition to failing to file timely responses, many of the responses were incorrect and conflicted with previous responses. The following examples are illustrative. First, attempts to determine the amount of the total purchase price of $450,000 allocated to each utility and to the street lighting and garbage collection rights were repeatedly asked. In response to Deficiency No. 3, the applicant replied that the total amount was pro-rated based on number of customers: $269,375 for Crestridge and $180,625 for Holiday Gardens. No dollar amount was assigned to the street lighting and trash "[s]ince the street lights and trash are in the deed restrictions and I had to take them as part of the deal, but they have no value because they have no assets nor do they produce any profit." In response to the December 3, 2014, staff audit findings that the net book value at the time of transfer for Holiday Gardens was $24,544 and for Crestridge was $60,694, the applicant indicated that positive acquisition adjustments in the amount of $156,081 and $208,681 for each Utility, respectively, were appropriate.[11] In Staff's Second Data Request no. 4, requests documentation to support these acquisition adjustments were made. However, on March 18, 2015, the applicant subsequently withdrew his requests for acquisition adjustments for each utility at which time the applicant also amended his allocation of the purchase price of the utilities to reflect a cost of $60,694 for Crestridge, $24,544 to Holiday Gardens and the balance of $364,762 to street lighting and garbage collection rights. As noted above, Mr. Smallridge has asserted that these services are provided at cost and produce no profit. This assertion conflicts with the general ledger provided to audit staff which shows customers are billed approximately $4,450 per month more than the utilities were charged for street lighting and garbage collection services. Staff has repeatedly requested additional information to verify the amount billed to customers for street lighting and garbage collection services. This information has not been provided to date.

Second, staff repeatedly asked about the closing date for the purchase of the utilities in order to determine the net book value of each utility. At various times the applicant either stated or provided documents indicating that closing took place: a) on April 11, 2014, per the terms of the Purchase Agreement; b) on August 22, 2014, as stated on the Closing Statement provided in response to Staff's Third Data Request no. 9; or c) on August 27, 2014, as stated in response to staff's third data request no. 7. Based upon filings in the SARC dockets, the closing date provided to SWFWMD was given as August 22, 2014.

Third, as part of its required financial viability analysis, staff tried to verify the amount of the mortgage payment to the Sellers due each month pursuant to the Purchase Agreement. Depending on the documentation provided this amount was: a) $4,484.71 per month as stated in Section 4 of the Purchase Agreement; b) $4,500 per month as stated on the first page of the Promissory Note dated August 22, 2014, provided in response to Staff's First Data Request no. 4; or c) $4,484.71 per month as stated on the complete Promissory Note dated August 22, 2014, provided in response to Staff's Third Data Request no. 8. The terms of the Promissory Note state that the monthly payment terms can only be changed with the written consent of the Seller. No such consent was provided.

[11] A closing date of April 11, 2014, was used by the auditors for each utility. This date was not contested by Mr. Smallridge in his subsequent responses to the audits filed on March 18, 2015.

**Delays in Filing Customer Notices**

Rule 25-30.030, F.A.C., requires a legal notice to be sent to state and local government agencies, nearby water utilities, and customers within seven days of the application, in addition to a newspaper publication for any transfer. At a utility's request, staff provides a listing for state and local government agencies and nearby water and wastewater utilities. This notice is allowed to be a late-filed exhibit in a transfer application, and was noted as such in the applications for both utilities. However, no such exhibits were provided by the time of staff's first data requests, nor had requests for the information been made. On October 7, 2014, as part of the first data request, staff provided examples of a legal notice and a list of entities to notify, including government agencies and other water utilities in Pasco County. On November 10, 2014, staff received a request for an electronic copy of the example legal notice, which was provided.

On January 12, 2015, staff sent reminder letters to the applicant that included another copy of the example legal notice and updated lists of government agencies and water utilities to contact, as the previous lists had expired. In his January 23, 2015, responses to Staff's First Data Request, legal notices were provided to staff for each proposed transfer. Staff assisted the applicant with attempts to resolve several flaws with the legal notices. On February 18, 2015, the applicant filed flawed notarized affidavits, including multiple incorrect dates for the filing and mailing of the notices, and both were missing affidavits from the publishing newspapers. On March 11, 2015, the applicant submitted proper affidavits of mailing customer notices and publications. Based upon these documents, customers were notified of the transfers on February 6, 2015, approximately five months after the applications were filed.

Section 367.1214, F.S., requires that a utility notify both the Commission and its customers before changing a utility's name. Mr. Smallridge has represented that he held meetings with customers in which he notified them of the name changes and change of ownership of the utilities prior to September 10, 2014, when the application for transfer was filed. However, the Commission was not notified of the name changes until the applications for transfer were filed.

**Public Interest Standard**

Rule 25-30.037(j) requires that an application for transfer demonstrate that it is in the public interest, including:

> ...summary of the buyer's experience in water or wastewater utility operations, a showing of the buyer's financial ability to provide service, and a statement that the buyer will fulfill the commitments, obligations and representations of the seller with regard to utility matters.

Mr. Smallridge has ample experience in the utility regulatory process. As stated in his application, he was appointed to the Citrus County Water and Wastewater Authority, the local regulatory body for Citrus County, and served for seven years. He served as the "Class C" representative for the Governors Study Committee for Investor Owned Water and Wastewater Utility Systems in 2013. He maintains a regular yearly schedule of training classes through the

Florida Rural Water Association and completed the NARUC Utility Rate School in 2001. He serves as the appointed circuit court receiver for Four Points Utility Corporation, Bimini Bay Utilities, and West Lakeland Wastewater, Inc., all of which have been involved in staff assisted rate cases, limited proceedings or certificate transfer cases in the last three years. Mr. Smallridge also owns Pinecrest Utilities, LLC, which was involved in a staff assisted rate case and limited proceeding to increase miscellaneous service charges in 2012. At this time, he is in the process of buying East Marion Sanitary Systems, Inc., for which he filed an application for transfer of certificate (Docket No. 150091-WU) on March 20, 2015. Further, Mr. Smallridge is the registered agent and owner of Lake Forest Utility, LLC and Charlie Creek Utilities, LLC. [12] In total, Mr. Smallridge, either owns, is the receiver of, or is the manager of a total of nine Class C water and wastewater facilities, seven of which are regulated by the Commission.

In addition to owning several Commission-regulated water and wastewater utilities, Mr. Smallridge owns and operates Florida Utility Services 1, LLC providing utility accounting, billing, consulting and operational services for each of his own utilities as well as other non-affiliated utilities.

Notwithstanding all of his training and experience with both the Commission and the regulatory process, Mr. Smallridge has failed to respond or to comply with even the most basic Commission rules and procedures after repeated attempts by staff to assist him in doing so. For example, Mr. Smallridge did not file the required filing fees until warned of the possibility that the transfers would be denied.

**Impact of Denial**

Section 367.071(1), F.S., states as follows:

> (1) No utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without determination and approval of the commission that the proposed sale, assignment, or transfer is in the public interest and the buyer, assignee, or transferee will fulfill the commitments, obligations, and representations of the utility. <u>However, a sale, assignment, or transfer of its certificate of authorization, facilities or any portion thereof, or majority organizational control may occur prior to commission approval if the contract for sale, assignment, or transfer is made contingent upon commission approval</u>.

<u>[Emphasis added.]</u>

The certificate must be issued in the name of the legal entity doing business as the utility, in this case, in the names of Holiday Gardens Utilities, Inc. (Certificate No. 116-W) and Crestridge Utility Corporation (Certificate No. 117-W). The LLCs created by Mr. Smallridge are separate legal entities under which Mr. Smallridge is currently providing water services to these same water customers without having received authorization from the Commission to do so under that

[12] Florida Department of State, Division of Corporations.

legal structure and under that legal name. The language of Section 367.071, F.S., does not authorize this type of action.

In this case the Purchase Agreement does contain language conditioning the sale upon Commission approval.[13] However, the language of Section 367.071(1), F.S., does not allow the transfer of assets into another separate legal entity prior to the Commission's approval. Thus, in this case, Mr. Smallridge can purchase and operate Holiday Gardens Utilities, Inc and Crestridge Utility Corporation contingent on later Commission approval. Mr. Smallridge cannot transfer all real and personal property out of the certificated entities until Commission approval is secured and the certificates officially transferred.

Section 10 of the Purchase Agreement states:

> Seller shall cooperate in Purchaser's continued operation of the system, until the expiration of such time as the FPSC approves said transfer to Purchaser, or any other applicant proposed by Purchaser or 2 years elapses from date of closing to approve such sale and transfer, whichever event occurs first. During such time the note and mortgage shall be paid as scheduled herein.

At this time, the current owners, Holiday Gulf-Homes, Inc., remain responsible for the continued operation of the certificated entities. Based upon the Purchase Agreement provision, Mr. Smallridge is required to continue to operate both Utilities until either transfers to Mr. Smallridge or another person/entity are approved by the Commission, or until two years from the closing date, whichever occurs first. In sum, should the Commission deny these applications for transfer Mr. Smallridge would continue to operate the utility systems pursuant to the terms of the Purchase Agreement under the certificated names of Crestridge Utility Corporation and Holiday Gardens Utilities, Inc.

**Conclusion**

Given the delays and failures to respond to staff data requests, providing conflicting information, delays in paying filing fees, and delays in filing customer notices, the applicant has failed to meet his burden of proof that the proposed transfers are in the public interest. Therefore, the applications for transfer of Certificate No. 117-W from Crestridge Utility Corporation to Crestridge Utilities, LLC, and of Certificate No. 116-W from Holiday Gardens Utilities, Inc., to Holiday Gardens Utilities, LLC, should be denied.

[13] "This contract is contingent upon the Florida Public Service Commission (FPSC) agreeing to the transfer of [the] application for Holiday Gardens Utilities and Crestridge Utilities Corporation. The sale, assignment and transfer of the utility's certificate of authorization, facilities and equipment is contingent upon FPSC approval." Section 10.b.

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

**Recommendation**: Yes. If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the order, a consummating order should be issued and the docket should be closed administratively. (Brownless)

**Staff Analysis**: If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the order, a consummating order should be issued and the docket should be closed administratively.

# Item 9

FILED APR 23, 2015
DOCUMENT NO. 02250-15
FPSC - COMMISSION CLERK

State of Florida

# Public Service Commission

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

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

**DATE:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Hill, King) 
Division of Economics (Bruce) 
Office of the General Counsel (Mapp) KRM JSC

**RE:** Docket No. 140240-WS – Application for amendment of Certificate Nos. 404-W and 341-S to extend water and wastewater service areas to include certain additional land in Orange County by Pluris Wedgefield, Inc.

**AGENDA:** 05/05/15 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

On December 11, 2014, Pluris Wedgefield, Inc. (Pluris Wedgefield or Utility) filed an application with the Commission to amend Certificate Nos. 404-W and 341-S to add territory in Orange County. The Utility plans to extend its service territory in order to provide water and wastewater service to a new school building, which will constitute fewer than 100 equivalent residential connections (ERCs).

Pluris Wedgefield's original water and wastewater certificates were granted in 1983. The Utility has been transferred three times, and the Utility's territory has been amended once. A name change from Pluris Wedgefield, LLC., to Pluris Wedgefield, Inc., was granted by the Commission in 2009. The Commission has jurisdiction pursuant to Section 367.045, Florida Statutes (F.S.).

## Discussion of Issues

**Issue 1**: Should the Commission approve Pluris Wedgefield's application for amendment of Certificate Nos. 404-W and 341-S to extend its water and wastewater territory in Orange County?

**Recommendation**: Yes. It is in the public interest to amend Certificate Nos. 404-W and 341-S to include the territory as described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as Pluris Wedgefield's amended certificates and should be retained by the Utility. The Utility should charge the customers in the territory added herein the rates and charges contained in its current tariffs until a change is authorized by the Commission in a subsequent proceeding. (Hill)

**Staff Analysis**: The Utility's application to amend its authorized service territory is in compliance with the governing statute, Section 367.045, F.S., and Rule 25-30.036, Florida Administrative Code (F.A.C.). The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. No objections to the application have been received and the time for filing such has expired.

The proposed service territory is intended to serve a K-8 public school for Orange County Public Schools. All construction will be funded by Orange County Public Schools as contributions in aid of construction, both in cash and property. The application contains a warranty deed, evidence that the Utility owns the land upon which the Utility facilities are located. Adequate service territory maps and territory descriptions have also been provided.

Rule 25-30.036(3), F.A.C. requires the Utility to show its financial and technical ability to provide service to the area to be served. The Utility was granted a rate increase in 2013[1]. The Commission found the quality of service of Pluris Wedgefield to be satisfactory. The Utility's financial ability to operate a utility has not diminished since that time. The Utility has filed its 2014 Annual Report and has paid its 2014 Regulatory Assessment Fees. The estimated additional water and wastewater demand for the school represents less than 1% of current flows, and the current Water Treatment Plant and Wastewater Treatment Plants have sufficient capacity to support these flows. According to the application, the provision of water and wastewater services in the proposed service territory is consistent with the Orange County Comprehensive Plan, and there are no outstanding Consent Orders or Notices of Violation from DEP. Therefore, staff recommends that Pluris Wedgefield has the financial and technical ability to serve the amended territory.

[1] Order No. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

Based on the foregoing, staff recommends it is in the public interest to amend Certificate Nos. 404-W and 341-S to include the territory as described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as Pluris Wedgefield's amended certificates and should be retained by the Utility. The Utility should charge the customers in the territory added herein the rates and charges contained in its current tariff until a change is authorized by the Commission in a subsequent proceeding.

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

**Recommendation**: Yes, if staff's recommendation in Issue 1 is approved, no further action is required and the docket should be closed. (Mapp)

**Staff Analysis**: If Issue 1 is approved, no further action is required and the docket should be closed.

PLURIS WEDGEFIELD, INC.

DESCRIPTION OF PROPOSED SERVICE TERRITORY

Begin at the east quarter corner of Section 2, Township 23 South, Range 32 East; thence run south 00°02'32" east along the east line of southeast quarter of Section 2, for a distance of 2642.05 feet to the northeast corner of Section 11, Township 23 South, Range 32 East; thence run south 00°20'03" east along the east line of the northeast quarter of Section 11 for a distance of 2678.71 feet; thence run south 00°24'40" west along the east line of the southeast quarter of Section 11 for a distance of 1958.18 feet, thence run north 52°32'16" west for a distance of 156.62 feet; thence run north 00°24'40" east for a distance of 1822.68 feet; thence run north 00°20'03" west for a distance of 2677.83 feet to the south line of Section 2; thence run north 00°02'32" west for a distance of 2677.83 feet to the south line of Section 2; thence run north 00°02'32" west for a distance of 2642.10 feet to the north line of the southeast quarter section of Section 2; thence run north 89°48'20" east along said north line for a distance of 178 feet to the Point of Beginning.

ORANGE COUNTY PUBLIC SCHOOLS PROPERTY:

A PARCEL OF LAND LOCATED IN SECTION 13, TOWNSHIP 23 SOUTH, RANGE 32 EAST, ORANGE COUNTY, FLORIDA, BEING TRACTS 10, 17, 18, 27, 28, 52, 53, 54, 69, 70 AND 71, CAPE ORLANDO ESTATES, ACCORDING TO THE PLAT THEREOF RECORDED IN PLAT BOOK Z, PAGES 82-85 OF THE PUBLIC RECORDS OF ORANGE COUNTY, FLORIDA AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGIN AT THE SOUTHWEST CORNER OF TRACT 11 OF SAID CAPE ORLANDO ESTATES; THENCE, N89°54'06"E, A DISTANCE OF 630.00 FEET; THENCE, N00°05'54"W, A DISTANCE OF 630.00 FEET TO THE SOUTH RIGHT-OF-WAY LINE OF ORTEGA STREET (60-FOOT RIGHT OF WAY PER PLAT BOOK Z, PAGES 82-85 OF THE PUBLIC RECORDS OF ORANGE COUNTY, FLORIDA); THENCE WITH SAID SOUTH RIGHT-OF-WAY LINE, N89°54'06"E, A DISTANCE OF 1650.00 FEET; THENCE, S00°05'54"E, A DISTANCE OF 1260.00 FEET TO THE NORTH RIGHT-OF-WAY LINE OF PADDOCK STREET (60-FOOT RIGHT OF WAY PER PLAT BOOK Z, PAGES 82-85 OF THE PUBLIC RECORDS OF ORANGE COUNTY, FLORIDA); THENCE, S89°54'06"E, A DISTANCE OF 1650.00 FEET; THENCE, N00°05'34"W, A DISTANCE OF 300.00 FEET; THENCE, S89°54'06"W, A DISTANCE OF 630.00 FEET TO THE EAST RIGHT-OF-WAY LINE OF BANCROFT BOULEVARD (106-FOOT RIGHT OF WAY PER PLAT BOOK Z, PAGES 82-85 OF THE PUBLIC RECORDS OF ORANGE COUNTY, FLORIDA); THENCE WITH SAID EAST RIGHT-OF-WAY LINE, N00°05'54"W, A DISTANCE OF 330.00 FEET TO THE POINT OF BEGINNING.

**FLORIDA PUBLIC SERVICE COMMISSION**

**authorizes**
**Pluris Wedgefield, Inc.**
**pursuant to**
**Certificate Number 404-W**

to provide water service in Orange County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

| Order Number | Date Issued | Docket Number | Filing Type |
|---|---|---|---|
| 12315 | 08/04/1983 | 820323-WS | Grandfather Certificate |
| PSC-96-1241-FOF-WS | 10/07/1996 | 960235-WS | Transfer of Certificate |
| PSC-96-1241-FOF-WS | 10/07/1996 | 960283-WS | Amendment |
| PSC-06-0094-FOF-WS | 02/09/2006 | 050499-WS | Transfer of Majority Organizational Control of Parent |
| PSC-09-0609-FOF-WS | 09/08/2009 | 090232-WS | Transfer of Certificate |
| PSC-09-0739-FOF-WS | 11/09/2009 | 090418-WS | Name Change |
| * | * | 140240-WS | Amendment |

***Order Numbers and dates to be provided at time of issuance.**

**FLORIDA PUBLIC SERVICE COMMISSION**

**authorizes**
**Pluris Wedgefield, Inc.**
**pursuant to**
**Certificate Number 341-S**

to provide wastewater service in Orange County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

| Order Number | Date Issued | Docket Number | Filing Type |
|---|---|---|---|
| 12315 | 08/04/1983 | 820323-WS | Grandfather Certificate |
| PSC-96-1241-FOF-WS | 10/07/1996 | 960235-WS | Transfer of Certificate |
| PSC-96-1241-FOF-WS | 10/07/1996 | 960283-WS | Amendment |
| PSC-06-0094-FOF-WS | 02/09/2006 | 050499-WS | Transfer of Majority Organizational Control of Parent |
| PSC-09-0609-FOF-WS | 09/08/2009 | 090232-WS | Transfer of Certificate |
| PSC-09-0739-FOF-WS | 11/09/2009 | 090418-WS | Name Change |
| * | * | 140240-WS | Amendment |

***Order Numbers and dates to be provided at time of issuance.**

# Item 10

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Rome, Draper) CRC EJD
Office of the General Counsel (Villafrate) J.W.D.

**RE:** Docket No. 150031-GU – Petition for approval of transportation service agreement with the Florida Division of Chesapeake Utilities Corporation by Peninsula Pipeline Company, Inc.

**AGENDA:** 05/05/15 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

## Case Background

On January, 16, 2015, Peninsula Pipeline Company, Inc. (Peninsula) filed a petition seeking approval of a firm transportation service agreement (Agreement) between Peninsula and the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas (CFG) for construction of a gas transmission pipeline. Peninsula operates as a natural gas transmission company as defined in Section 368.103(4), Florida Statutes (F.S.).[1] CFG is a natural gas distribution company serving retail customers throughout Florida.

[1] Order No. PSC-06-0023-DS-GP, issued January 9, 2006, in Docket No. 050584-GP, In re: Petition for declaratory statement by Peninsula Pipeline Company, Inc. concerning recognition as a natural gas transmission company under Section 368.101, F.S., et seq.

In Order No. PSC-07-1012-TRF-GP Peninsula received approval of an intrastate gas pipeline tariff that allows it to construct and operate intrastate pipeline facilities and to actively pursue agreements with gas customers.[2] Peninsula provides transportation service only, and does not engage in the sale of natural gas. Pursuant to Order No. PSC-07-1012-TRF-GP, Peninsula is allowed to enter into certain gas transmission agreements without prior Commission approval. However, Peninsula is requesting Commission approval of this Agreement as it does not fit any of the criteria enumerated in the tariff for which Commission approval would not be required.[3] Peninsula is a subsidiary of Delaware-based Chesapeake Utilities Corporation and CFG is a division of Chesapeake Utilities Corporation. Agreements between affiliated companies must be approved by the Commission pursuant to Section 368.105, F.S., and Order No. PSC-07-1012-TRF-GP.

Peninsula plans to construct and operate 14.2 miles of pipeline in Polk County, Florida and is seeking Commission approval of a firm transportation service agreement with CFG. CFG will use the new pipeline to improve service to existing customers and to serve new load. The route of the proposed pipeline is shown in Attachment A. During its evaluation of the petition, staff issued a data request to both Peninsula and CFG for which responses were received on February 16, 2015. Staff issued two additional data requests to CFG for which responses were received on March 2, 2015, and March 31, 2015, respectively. The Commission has jurisdiction over this matter pursuant to Sections 366.06, and 368.105, F.S.

[2] Order No. PSC-07-1012-TRF-GP, issued December 21, 2007, in Docket No. 070570-GP, In re: Petition for approval of natural gas transmission pipeline tariff by Peninsula Pipeline Company, Inc.

[3] Peninsula Pipeline Company, Inc., Intrastate Pipeline Tariff, Original Vol. 1, Sheet No. 12, Section 4.

## Discussion of Issues

**Issue 1**: Should the Commission approve the Transportation Service Agreement dated January 15, 2015?

**Recommendation**: Yes. The Commission should approve the Transportation Service Agreement dated January 15, 2015, requested by Peninsula to provide firm transportation service to CFG. (Rome, Draper)

**Staff Analysis**: To support the need for a new pipeline, CFG explained that its existing lateral in the Haines City area is operating at maximum allowable operating pressure and at full capacity. This results in two principal negative impacts: (1) CFG's system has reached the point where it is unable to meet the demands of all customers during the winter season and deliveries to several industrial customers have been limited to minimize impacts on residential and other smaller volume customers, and (2) CFG is unable to serve new customers in the Haines City, Davenport, Lake Alfred, Winter Haven and Auburndale areas without an upgrade to the existing pipeline system.

Pursuant to the proposed Agreement, Peninsula will construct and maintain a 14.2-mile, 6-inch steel pipeline from Gulfstream's Baseball City Gate southward through Davenport and Haines City with interconnections to CFG's facilities. Gulfstream is an interstate pipeline company that provides subaqueous transport of natural gas traversing the Gulf of Mexico to delivery points in Florida. Pending Commission approval, Peninsula anticipates to construct the pipeline in four phases. CFG stated that the Gulfstream gate station upgrade is currently under way. As the pipeline segments go into service gas will be delivered to CFG. Peninsula expects that construction of the entire pipeline will be completed late in the third quarter of 2015.

The initial term of the proposed Agreement is 20 years, with an option to extend for additional 10-year increments. Peninsula stated that it applied for all required permits for the pipeline and expects to receive them around May 2015.

CFG stated that it examined several possible alternatives and decided that the most cost effective solution would be to contract with Peninsula to provide firm transportation service. CFG stated that it solicited construction cost estimates from two outside entities and from Peninsula. In response to staff's data request, CFG showed that the confidential cost estimates provided by the outside entities were higher than Peninsula's cost estimate and therefore the transportation service costs would have been higher.

CFG also considered building the pipeline itself; however, CFG stated that due to the scope and cost of the project, it would likely need to file either a rate case or a limited proceeding petition to recover the costs of the facilities in base rates. In response to a staff data request, CFG provided a pro forma estimate of a reduced overall rate of return in support of the assertion that rate relief would be necessary and estimated that the cost of the rate proceeding would be in excess of $600,000. Finally, CFG stated that the proposed pipeline will be considered a transmission line for purposes of safety inspections and maintenance. CFG as a local distribution company typically does not engage in transmission line activities.

In addition to CFG supporting the proposed Agreement, Peninsula lists four benefits of Peninsula constructing this extension rather than CFG: (a) CFG would not incur either the upfront cost to install the new facilities or the incremental cost associated with safety compliance requirements, (b) CFG would not incur costs associated with rate case expense, (c) Peninsula's construction of the pipeline would facilitate service being available to customers in a shorter time frame than if CFG were to undertake the project on its own, and (d) Peninsula provided the least cost option of the alternatives available to CFG.

The negotiated monthly reservation charge (confidential) included in the proposed Agreement is designed to allow Peninsula to recover its investment and on-going operational and maintenance costs associated with the extension. These costs include design engineering, permitting, material and installation costs, on-going maintenance costs, property taxes, and Peninsula's return on investment. The parties assert that the rates contained in the Agreement are consistent with a market rate in that they are within the ranges of rates set forth in similar agreements as required by Section 368.105(3)(b), F.S. In response to a staff data request, Peninsula provided comparative cost information (confidential) for other similar agreements entered into by Peninsula. While specific circumstances vary for each project due to pipe size, construction conditions, permitting, etc., staff believes that the information provided by Peninsula for the proposed pipeline appears reasonable.

Cost recovery. CFG will allocate the costs associated with the proposed Agreement to the two Transitional Transportation Service (TTS) program shippers who are described below. The TTS Shippers then will have an opportunity to pass on the costs to their customer pool as the construction of the pipeline segments is completed and gas deliveries are made to CFG. CFG explained that it would activate recovery of a pro-rata portion of the reservation charge contained in the Agreement as the pipeline segments go into service.

The TTS program shippers are natural gas marketers who purchase and transport gas from the wellhead to delivery points on CFG's distribution system. The TTS program shippers purchase gas for all residential customers and for commercial customers who do not contract directly with a shipper for their gas supply. CFG contracts with two TTS Shippers to provide gas supply service to the TTS customer pools. The two TTS shippers offer various pricing options and customers can choose between the two pool managers and select the best pricing option. The Commission does not approve or review the gas prices TTS shippers offer. Customers that are not part of the TTS customer pools participate in the individual transportation services program. Those are primarily large commercial or industrial customers who contract directly with a shipper for their gas supply.

By way of background, Order No. PSC-02-1646-TRF-GU authorized CFG to exit the gas merchant function (i.e., acting as an agent purchasing gas on behalf of its customers) and to convert all customers to transportation service.[4] In a transportation service environment, CFG only transports gas from delivery points to the customer's meter and all customers are

[4] Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, In re: Petition of Florida Division of Chesapeake Utilities Corporation for authority to convert all remaining sales customers to transportation service and to exit merchant function.

responsible for purchasing gas from shippers. Thus, CFG does not participate in the annual Purchased Gas Adjustment (PGA) proceedings at the Commission.

Other investor-owned gas utilities such as Peoples Gas System (Peoples) or CFG's sister company Florida Public Utilities Company (FPUC) have not exited the gas merchant function. For Peoples or FPUC, transportation agreements with intrastate transmission pipelines such as Peninsula are recovered through the PGA mechanism. Large commercial or industrial customers who purchase their gas directly through a shipper and do not pay a PGA charge therefore are not allocated any intrastate transportation costs.

Since CFG no longer has a PGA mechanism, Order No. PSC-02-1646-TRF-GU established an Operational Balancing Account (OBA), the intent of which is to authorize the company to recover or refund charges or credits that historically would have been recovered from or allocated through the PGA. Under CFG's current OBA mechanism, CFG will assign its payments to Peninsula to the two TTS shippers. Initially, individual transportation customers therefore will not be assigned any cost of the proposed Agreement, even though they will benefit from the infrastructure upgrades.

FPUC and CFG are aware of this skewed allocation of intrastate transportation costs to the PGA customers for FPUC and the TTS pool customers for CFG, while individual transportation service customers currently do not bear any costs associated with intrastate pipelines. FPUC and CFG therefore proposed in a recent joint petition to move towards a more equitable allocation of transportation costs across a broader base of customers.[5] FPUC and CFG also met in a noticed meeting on April 7, 2015, with staff and the Office of the Public Counsel to provide an overview of the evolution of the natural gas market and the current transportation service environment. Staff intends to work with the industry to develop a plan for Commission approval that addresses a fairer allocation methodology of assigning intrastate transportation costs.

Conclusion. Based on the petition and responses from Peninsula and CFG to staff's data requests, Peninsula and CFG have demonstrated the operational limitations of the current infrastructure and supported the importance of the need for the new pipeline to meet current demand and attract new load. Staff believes the proposed Agreement is reasonable, meets the requirements of Section 368.105, F.S., and benefits CFG's customers. Staff therefore recommends approval of the proposed Agreement.

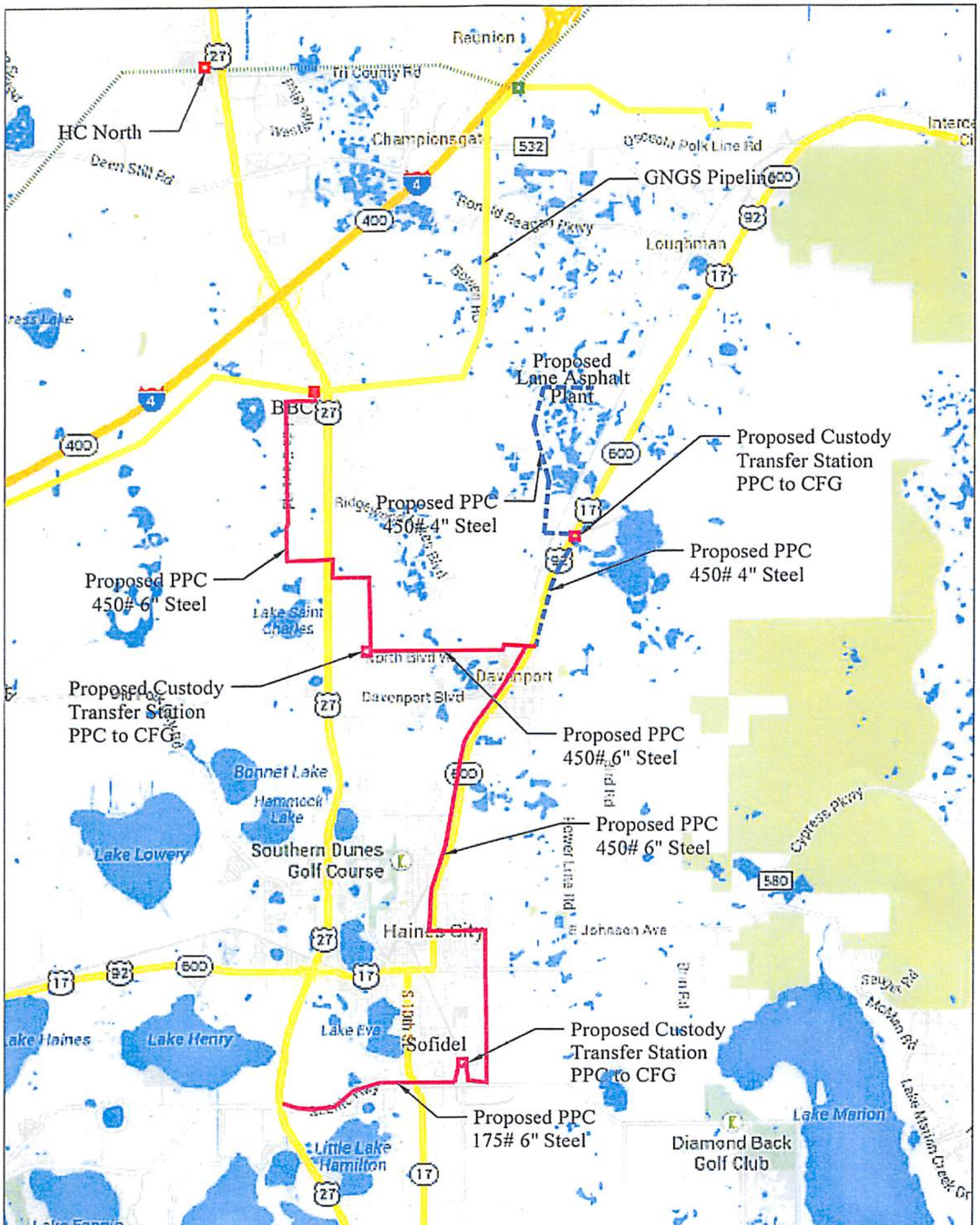
[5] Docket No. 150117-GU, In re: Joint Petition of Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, Florida Public Utilities Company-Fort Meade, and the Florida Division of Chesapeake Utilities Corporation for Approval of Modified Cost Allocation Methodology and Revised Purchased Gas Adjustment Calculation.

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

**Recommendation**: Yes. If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Villafrate)

**Staff Analysis**: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.

Map showing location of proposed Peninsula pipeline



# Item 11

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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Economics (Ortega, Hudson) SH AO PP J.W.D.
Office of the General Counsel (Janjic) JSC

**RE:** Docket No. 150092-WS – Request for approval of amendment to tariff for miscellaneous service charges by Marion Utilities, Inc.

**AGENDA:** 05/05/15 – Regular Agenda – Tariff Filing – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** 05/22/15 (60-Day Suspension Date)

**SPECIAL INSTRUCTIONS:** None

## Case Background

Marion Utilities, Inc. (Marion or Utility) is a Class A utility, which provides service in Marion County to approximately 6,158 water and 136 wastewater customers. The Utility's 2013 annual report shows a combined water and wastewater annual operating revenue of $1,540,976, and a total utility operating income of $145,619. On March 23, 2015, the Utility filed an application for changes and additions to Tariff Sheet Nos. 13.0 and 15.1. These changes include increasing its miscellaneous service charges and initial customer deposit, adding a meter tampering charge, and adding a convenience charge for the processing of credit and debit card payments. This recommendation addresses the suspension of Marion's proposed tariff sheets. The Commission has jurisdiction pursuant to Section 367.091(6), Florida Statues (F.S.).

## Discussion of Issues

**Issue 1**: Should the Commission suspend the Utility's request to amend Tariff Sheet Nos. 13.0 and 15.1?

**Recommendation**: Yes. The Utility's request to amend Tariff Sheet Nos. 13.0 and 15.1 should be suspended. (Ortega, Hudson)

**Staff Analysis**: Pursuant to Section 367.091(6), F.S., the Commission may withhold consent to operation of any or all portions of new rate schedules by a vote to that effect within 60 days, giving a reason or statement of good cause for withholding its consent. Staff is recommending that the tariff be suspended to allow sufficient time to review the application and gather pertinent information in order to present the Commission with an informed recommendation on the proposed tariffs. Staff believes that this reason is a good cause consistent with the requirements of Section 367.091(6), F.S. In addition, while staff is in receipt of the Utility's responses to Staff's First Data Request, staff believes additional requests may be necessary to process this case. Based on the above, staff recommends that the Utility's proposed Tariff Sheet Nos. 13.0 and 15.1 should be suspended.

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

**Recommendation**: No. The docket should remain open pending the Commission's final action on the Utility's requested approval of amendment to Tariff Sheet Nos. 13.0 and 15.1. (Janjic)

**Staff Analysis**: The docket should remain open pending the Commission's final action on the Utility's requested approval of amendment to Tariff Sheet Nos. 13.0 and 15.1.