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 Commission Conference Agenda
 October 11, 2016

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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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Office of the General Counsel (S. Hopkins) *Smith/Kay*
Office of Telecommunications (S. Deas) *S.D.*

RE: Application for Certificate of Authority to Provide Telecommunications Service *Smith*

AGENDA: 10/11/2016 - Consent Agenda - Proposed Agency Action - Interested Persons May Participate

SPECIAL INSTRUCTIONS: None

Please place the following Application for Certificate of Authority to Provide Telecommunications Service on the consent agenda for approval.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>CERT. NO.</u>
160163-TX	MIX Networks, Inc.	8899

The Commission is vested with jurisdiction in this matter pursuant to Section 364.335, Florida Statutes. Pursuant to Section 364.336, Florida Statutes, certificate holders must pay a minimum annual Regulatory Assessment Fee if the certificate is active during any portion of the calendar year. A Regulatory Assessment Fee Return Notice will be mailed each December to the entity listed above for payment by January 30.

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Office of the General Counsel (Tan, Cuello)
Division of Economics (Lingo, Coston, Harlow)

RE: Docket No. 160002-EG – Energy conservation cost recovery clause.

AGENDA: 10/11/16 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: Nov. 17, 2016 (Petition Deemed Approved if Not Granted or Denied within 90 Days of Receipt pursuant to Section 120.542(8), Florida Statutes)

SPECIAL INSTRUCTIONS: None

SAC [Signature]
[Signature]
[Signature]

Case Background

Pursuant to Rule 25-17.015(1), Florida Administrative Code (F.A.C.), the Florida Public Service Commission (Commission) sets an annual evidentiary hearing in its continuing Energy Conservation Cost Recovery (ECCR) docket pursuant to Sections 366.80-366.83, Florida Statutes (F.S.), to approve conservation cost recovery. The evidentiary hearing is set for November 2 – 4, 2016.

On August 19, 2016, Florida Power & Light Company (FPL), Duke Energy Florida, LLC, (DEF), Tampa Electric Company (TECO), and Gulf Power Company (Gulf) filed a Joint Petition for a Waiver of Rule 25-17.015(1)(b), F.A.C., (Joint Petition). On the same day, Florida Public Utilities Company (FPUC) filed a Notice of Joinder of the Joint Petition.

Docket No. 160002-EG
Date: September 29, 2016

Notice of Joint Petition was published in the Florida Administrative Register on August 24, 2016. No comments were received, and the time for filing comments expired on September 7, 2016. The Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, F.S., as well as Section 120.542, F.S.

Discussion of Issues

Issue 1: Should the Commission grant Florida Power & Light Company, Duke Energy Florida LLC, Tampa Electric Company, Gulf Power Company, and Florida Public Utilities Company's petition for waiver of Rule 25-17.015(1)(b), Florida Administrative Code?

Recommendation: Yes. Staff recommends that the Commission find it appropriate to grant the Joint Petition for waiver of Rule 25-17.015(1)(b), F.A.C., requested by Florida Power & Light Company, Duke Energy Florida LLC, Tampa Electric Company, Gulf Power Company, and Florida Public Utilities Company, and allow annual estimated/actual true-up filing of six month actual and six months of projected data. (Tan, Cuello, Lingo)

Staff Analysis:

Petition

As stated, FPL, DEF, TECO, Gulf, and FPUC, all of the investor owned utilities (IOUs) in Florida, request a rule waiver of the requirements of Rule 25-17.015(1)(b), F.A.C. The rule requires the electric utilities to make actual and estimated filings, based upon eight months of actual data and four months of projected common costs, individual program costs, and any collected revenues. The IOUs state that the due date for the actual/estimated true-up filing of August 19, 2016, does not allow the companies to prepare the actual/estimated filing based on eight months of actual and four months of projected data. The IOUs indicated that they can prepare their filings on the basis of six months actual and six months projected data. The IOUs request a waiver of Rule 25-17.015(1)(b), F.A.C., to allow their filing to be based on six months of actual and six months of projected data.

The IOUs assert that filings based on six months of actual and six months of projected data are a reasonable means of achieving the purpose of the statutes implemented by Rule 25-17.015(1)(b), F.A.C. The IOUs contend that the impossibility of submitting their filings on eight months of actual data and four months of projected data basis by the due date established in the Order Establishing Procedure, Order No. PSC-16-0102-PCO-EG, issued March 11, 2016, creates a substantial hardship for each of them. The IOUs further request that the waiver be granted for a period of two years to cover the August 2016 filing and the 2017 filing.

The Facts

Rule 25-17.015, F.A.C., requires the Commission to conduct annual ECCR proceedings in November of each year. The IOUs who participate in annual energy conservation programs over which the Commission has ratemaking authority may seek to recover their costs for energy conservation programs, and they must demonstrate that their expenditures to implement energy conservation programs are reasonable and prudent. Rule 25-17.015(1)(b), F.A.C., requires that the electric utilities make actual and estimated filings, based upon eight months of actual data and four months of projected data to be used in the annual ECCR proceedings.

Requirements of Section 120.542, F.S.

Section 120.542(2), F.S., authorizes the Commission to grant variances or waivers from agency rules where the person subject to the rule has demonstrated that the purpose of the underlying statute will be or has been achieved by other means, and strict application of the rule would cause the person substantial hardship. As defined by Section 120.542(2), F.S., “substantial hardship” as defined in the statute means demonstrated economic, technological, legal, or other hardship.

Purpose of the Underlying Statutes

Sections 366.80-366.83, F.S., are known collectively as the Florida Energy Efficiency and Conservation Act (FEECA). The purpose of these statutes is to direct the Commission to adopt goals and approve plans related to the promotion of demand-side renewable energy systems and the conservation of electric energy. The IOUs are asking to waive the eight months actual and four month projected aspect of the rule and provide actual and estimated true-up filings that are six months actual and six months projections of common costs, individual program costs and any revenues collected. In their ECCR filings, the IOUs continue to provide actual and estimated true-up projections. The IOUs assert that a waiver of Rule 25-17.015(1)(b), F.A.C., as proposed in the instant docket, will not prevent meeting the statutory requirements under Sections 366.80-366.83, F.S., because the six month actual and six month projections of information will satisfy the purpose of Section 366.05(1), F.S., for this year.

Substantial Hardship

As stated, pursuant to Section 120.542(2), F.S., the petition must demonstrate that application of the rule would create a substantial hardship. Further, Section 120.542(2), F.S., defines substantial hardship as demonstrated, economic, technological, legal, or other type of hardship to the entity requesting the waiver. Here the IOUs assert that application of the rule would create a substantial hardship to the IOUs due to the impossibility of submitting their filing on the basis of eight months of actual data and four months of projected data as required by the rule and by the due date set by the Order Establishing Procedure. Staff recommends that the Commission finds that the strict application of Rule 25-17.015, F.A.C., in the instant docket would create a substantial hardship for the IOUs based on the unavailability of the financial information. Staff believes that the information that the IOUs provided will allow the Commission to determine the IOUs’ recovery of costs for energy conservation programs pursuant to the annual ECCR program and that the information complies with the underlying statutes. Therefore, staff recommends that the IOUs have demonstrated that application of the rule would create a substantial hardship under the current timeline as set forth in the current hearing schedule.

Conclusion

Section 120.542, F.S., requires companies to demonstrate that the purpose of the underlying statute will be or has been achieved by other means by the companies and that application of the rule would create a substantial hardship. Staff recommends that the IOUs have demonstrated that a substantial hardship would be created with a application of Rule 25-17.015, F.A.C. Staff further recommends, that the Commission find that the IOUs have demonstrated that the purpose

of the underlying statute will be achieved with a waiver of the application of Rule 25-17.015, F.A.C. Therefore, staff recommends that the Commission find it appropriate to grant the IOUs' Joint Petition for waiver of Rule 25-17.015(1)(b), F.A.C., and allow annual estimated/actual true-up filings of six month actual and six months of projected data.

Issue 2: 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, this docket should not be closed upon the issuance of a consummating order. The Energy Conservation Cost Recovery Clause docket is ongoing and this docket should remain open for further Commission action. (Tan, Cuello)

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, this docket should not be closed upon the issuance of a consummating order. The Energy Conservation Cost Recovery Clause docket is ongoing and this docket should remain open for further Commission action.

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: September 29, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Andrew L. Maurey, Director, Division of Accounting & Finance *ALM*

RE: Docket No. 150269-WS - Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida – Revised Recommendation

Attached for filing is the revised recommendation in the above-named docket. Staff filed a recommendation in this docket on August 31, 2016. The Commission deliberated on the item at the September 13, 2016 Commission Conference, but deferred the item for consideration at a later date. The revisions relate to tank salvage value on pages 8 and 9; rate case expense on pages 10, 11, and Schedule No. 3; and additional references to the Bulk Water Agreement between UIF and Pasco County which has been attached to the recommendation as Attachment A. Schedule Nos. 1 and 4 were also updated to reflect the revisions discussed above. Staff is filing a revised recommendation for consideration at the October 11, 2016 Commission Conference.

EXE Approval _____

A handwritten signature in blue ink, appearing to be "ALM", written over a horizontal line.

ALM:crbb

Attachment

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Slemkewicz, D. Buys, Mouring) JS, JAS, M, CRB, ALM
Division of Economics (Hudson, Johnson) CAS, BOZ
Division of Engineering (King, Mtenga) MM, ROC, JY
Office of the General Counsel (Mapp) KM, Mact for JSC

RE: Docket No. 150269-WS – Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida.

AGENDA: 10/11/16 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to twenty-seven systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. On December 30, 2015, the Utility requested a limited proceeding water rate increase for Marion, Pasco, and Seminole Counties. UIF is a wholly-owned subsidiary of Utilities, Inc. (UI). The Utility's last rate case was in 2012.¹

¹ 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.*

The petition for a limited proceeding was filed pursuant to Rule 25-30.446, Florida Administrative Code (F.A.C.). Driving the limited proceeding were (1) galvanized service line replacement costs in Marion County, (2) loss of irrigation customers, plant additions, and purchased water costs in Pasco County, and (3) interconnection plant addition costs in Seminole County.²

On March 24, 2016, the Office of Public Counsel (OPC) filed its notice of intervention in this proceeding, and an Order acknowledging intervention was issued on April 4, 2016.³ Prior to the notice of intervention, OPC submitted a letter, dated February 2, 2016, outlining concerns that OPC had with the Utility's petition for Marion, Pasco, and Seminole Counties.⁴ UIF responded to OPC's concerns in a letter dated March 2, 2016.⁵

An estimated 500 customers attended the 2 customer meetings held in New Port Richey (Pasco County) on April 12, 2016, with 175 customers providing comments. No customers attended the meeting held on April 13, 2016, in Ocala for the customers in Marion and Seminole Counties.

UIF notified the Commission of its intent to file an application for a rate increase on April 28, 2016, for all regulated systems in Florida. Docket No. 160101-WS was assigned to the forthcoming consolidated proceeding.⁶ The Minimum Filing Requirements were filed on August 31, 2016, for Docket No. 160101-WS, based on a historical test year ended December 31, 2015.

By letter dated June 8, 2016, UIF requested that the portion of this limited proceeding addressing a rate increase in Pasco County be bifurcated from the portion addressing rate increases in Marion and Seminole Counties.⁷ OPC filed a response to UIF's bifurcation request on June 13, 2016.⁸ As a result, rate increases were addressed at the July 7, 2016 Commission Conference for Marion and Seminole Counties only. The Commission's vote on the limited proceeding for Marion and Seminole Counties was codified in Order No. PSC-16-0296-PAA-WS, issued July 27, 2016. A consummating order was issued in Order No. PSC-16-0342-CO-WS on August 22, 2016.

² On April 12, 2016, the Commission acknowledged the reorganization and name change of UI's systems in Florida. The instant docket applies only to the former Utilities, Inc. of Florida systems, and does not include Labrador Utilities, Inc. in Pasco County. Order No. PSC-16-0143-FOF-WS, issued April 12, 2016, in Docket No. 150235-WS, *In re: Joint application for acknowledgement of corporate reorganization and request for approval of name changes on water and/or wastewater certificates of Cypress Lakes Utilities, Inc. in Polk County; Utilities, Inc. of Eagle Ridge in Lee County; Utilities, Inc. of Florida in Marion, Orange, Pasco, Pinellas, and Seminole Counties; Labrador Utilities, Inc. in Pasco County; Lake Placid Utilities, Inc. in Highlands County; Lake Utility Services, Inc. in Lake County; Utilities, Inc. of Longwood in Seminole County; Mid-County Services, Inc. in Pinellas County; Utilities, Inc. of Pennbrooke in Lake County; Utilities, Inc. of Sandalhaven in Charlotte County; Sanlando Utilities Corporation in Seminole County; and Tierra Verde Utilities, Inc. in Pinellas County, to Utilities, Inc. of Florida.*

³ Order No. PSC-16-0135-PCO-WS

⁴ Document No. 00669-16

⁵ Document No. 01120-16

⁶ Docket No. 160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

⁷ Document No. 03459-16

⁸ Document No. 03641-16

Docket No. 150269-WS
Date: September 29, 2016

In its initial filing, UIF's request for Pasco County was separated into Phase I regarding the loss of revenue associated with customer-installed irrigation wells, and Phase II associated with UIF's interconnection to Pasco County for bulk provision of water to UIF's Summertree customers. The Bulk Water Agreement between UIF and Pasco County was executed on August 9, 2016, and is included as Attachment A.

By letter dated August 11, 2016, the Utility withdrew its request for the Phase I rate increase for Pasco County to be deferred and considered later in the consolidated rate case docket.⁹ On August 18, 2016, OPC requested a deferral of the decision to consider any rate increase until (1) the actual amount of any Southwest Florida Water Management District (SWFWMD) grants have been taken into account; (2) any possible overearnings have been evaluated; (3) any potential customer savings from the UIF consolidation have been evaluated; and (4) the quality of water service issues have been addressed and resolved.¹⁰

The Commission considered the Phase II rate increase at the September 13, 2016 Commission Conference and deferred the matter. Based on discussions at the Commission Conference, staff has revised the recommendation.

The Phase I rate increase for Pasco County will be addressed in Docket No. 160101-WS. This recommendation only addresses the requested Phase II rate increase directly related to the interconnection with Pasco County to address water quality issues.

The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, Florida Statutes (F.S.).

⁹ Document No. 06480-16

¹⁰ Document No. 06823-16

Discussion of Issues

Issue 1: Should the Utility's requested increase associated with the Pasco County Interconnect Phase II be approved?

Recommendation: Yes, as modified by staff.

- The Commission should approve a water rate increase of \$47,836 (or 5.45 percent) which is driven in large part by the expense related to the retirement of the abandoned wells, and the purchased water expense pursuant to the Bulk Water Agreement with Pasco County (Attachment A).
- In addition, the estimated \$200,000 net cost to retire the abandoned wells, as well as the use of the hydro tank and its \$5,000 salvage value, should be reviewed in the forthcoming consolidated rate case in Docket No. 160101-WS.
- Further, UIF should be directed to provide secondary water quality results for portions of its Summertree distribution system at least every six months. Samples should be taken from the same sites labeled “nearby system site” shown in Appendix A of the CPH Engineering Report for consistency purposes. Such results should be filed with the Commission for informational purposes. The first report should be filed no later than two months after the completion of the interconnection with Pasco County.
- Pursuant to Order No. PSC-14-0025-PAA-WS, the 100-basis point reduction in return on equity and water testing requirement should remain in place until the water quality is deemed satisfactory by the Commission. (Slemkewicz, Mtenga, Hudson)

Staff Analysis: As a result of UIF’s withdrawal of its Pasco County Phase I request, staff has modified the Utility’s original request for Pasco County Phase II to recognize rate case expense in operating expense. Staff also reduced the annualized revenues to reflect the effects of the loss of irrigation customers. Accordingly, the requested rate increase is \$52,547 (or 6.05 percent) as shown on Schedule No. 1. Staff’s analysis is based on the modified amounts. However, with regard to UIF’s calculated rate increase of \$52,547 (or 6.05 percent) for Pasco County Phase II, staff would note that the Utility made an error in its calculation of the income subject to state and federal income taxes. In calculating the taxable income amount, UIF multiplied the decreased rate base amount by the total overall ROR of 8.03 percent. The proper calculation would be to multiply the decreased rate base amount by only the common equity weighted cost component of the ROR. In its calculation, staff used a common equity weighted cost component of 4.41 percent rather than the total overall ROR of 7.22 percent. Based on its adjustments, staff has calculated a water rate increase of \$47,836 (or 5.45 percent) for Pasco County Phase II as shown in Schedule No. 1.

Rate Base

The Utility requested a rate base reduction of \$356,579 to reflect the abandonment of water wells in Pasco County Phase II. The rate base components were Retirements and Cash Working Capital.

Retirements

In its filing, UIF reduced rate base by the net book value of \$363,697 for the retirement of the abandoned wells.

By Order No. PSC-14-0025-PAA-WS (2014 Order), the Commission found the quality of water in the Summertree water system to be unsatisfactory and ordered that the revenue requirement for the Summertree water system be subject to a 100-basis point reduction in return on equity (or approximately \$23,115 annually) until the Utility demonstrated that the water quality had been restored to the point where it is deemed satisfactory by this Commission.¹¹ To address the water quality issues, the Commission ordered several future actions that would need to be taken by the Utility to satisfy the concerns of its customers:

- Coordinate with the OPC to develop a customer engagement plan;
- identify suitable treatment options to address the secondary water quality issues including an estimated rate impact to customers;
- consider the cost and feasibility of connecting to the Pasco County water system with the purchase of bulk water from the County; and
- present options to Summertree customers and conduct a survey to determine customer preferences.

As directed by the 2014 Order, OPC, who was the facilitator, coordinated community meetings between the Utility and Summertree residents beginning in January 2014. A total of 30 meetings were held from 2014 through 2016 with a group consisting of representatives of the Summertree residents, the Utility, OPC and in some instances Pasco County Commissioners and/or Florida State Legislators. OPC compiled thorough minutes of the meetings and provided periodic updates to Commission staff.

On April 28, 2014, a meeting was held to discuss the treatment alternatives analysis report prepared by CPH Engineering (CPH Report)¹² that was submitted by UIF to the group. The CPH Report outlined three possible solutions to the water quality issues: construction of a centralized water treatment plant with upgraded treatment; upgraded water treatment at each well site; or interconnection with Pasco County. As noted on pages 8 and 10 of the CPH Report, the elevated color concentrations in the distribution system were most likely due to the buildup of biomass. Specifically, the CPH Report recommended that prior to any treatment modifications, the Utility should “thoroughly flush the distribution system to remove any [possible] biomass in the system and repeat the flushing process at least annually.” The CPH Report also indicated that interconnecting with Pasco County would require the Utility to decommission its four production wells and each of their associated water treatment facilities to conform to the rules and regulations of SWFWMD. The CPH Report concluded that the interconnection was the lowest cost option that would provide improved water quality with respect to iron, odor and color. The

¹¹Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket 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*, pp.4-8.

¹² Document No. 05631-16

CPH Report ultimately recommended that “Utilities Inc. of Florida pursue a potable water interconnection with Pasco County, including a thorough cleaning of the distribution system.”

In accordance with the 2014 Order, OPC coordinated subsequent meetings between the Utility and representatives of Summertree residents to discuss the different options, with UIF ultimately proposing the recommendation of the Pasco County Interconnection. To solicit customer input, OPC organized a survey ballot, the language of which was finalized in January 2016. The ballot asked the residents whether Summertree should interconnect with Pasco County and to rate the quality of water service provided by UIF. Ballots were mailed to approximately 1,172 customers in March 2016. A total of 876 valid survey responses were returned with 830 of the residents voting in favor of the interconnection and 746 rating the quality of service as unsatisfactory. As noted in the case background, 175 customers provided comments at the April 12, 2016 customer meetings. The majority of the comments focused on the unsatisfactory quality of service provided by UIF.

While the interconnection with Pasco County should improve water quality, the final impact on water quality can be determined only after the completion of the interconnection and the implementation of a flushing protocol. Therefore, the Utility should be directed to provide secondary water quality results for portions of its Summertree distribution system at least every six months until the Commission finds the water quality to be satisfactory. Samples should be taken from the same sites labeled “nearby system site” shown in Appendix A of the CPH Report for consistency purposes. Such results should be filed with the Commission for informational purposes. The first report should be filed no later than two months after the completion of the interconnection with Pasco County. Pursuant to the 2014 Order, the 100-basis point reduction in return on equity should remain in place until the water quality is deemed satisfactory by the Commission.

As previously discussed, the abandonment of the wells and the interconnection with Pasco County was considered to be the lowest cost option. The Bulk Water Agreement with Pasco County (Attachment A) provides that the \$896,141 initial connection fee¹³ will be paid for by Pasco County from a grant provided by the Florida Department of Environmental Protection (FDEP).¹⁴ Staff recommends that rate base be reduced by the \$363,697 net book value of the abandoned wells to reflect their removal from rate base.

Working Capital Allowance

UIF included a working capital allowance of \$7,118 for Pasco County Phase II. This amount represents 1/8th of the O&M expense increase of \$56,941. However, staff has made several adjustments to O&M expense that increased the O&M expense to \$63,638 as explained in the “O&M Expense” section below. As a result, staff recommends that the appropriate amount of incremental working capital is \$7,955 ($\$63,638 \div 8$), or \$837 higher than the amount included by UIF.

After reviewing UIF’s requested rate base decrease of \$356,579, staff recommends that rate base be decreased by \$355,742 for Pasco County Phase II as shown on Schedule No. 1. The \$837 difference reflects the change in working capital.

¹³ Document No. 07147-16, p.4

¹⁴ Document No. 06923-16

Rate of Return

Per Schedule No. 11 of its filing, UIF calculated an 8.03 percent rate of return (ROR). This ROR was based on a capital structure ended December 31, 2014, that only included long-term debt with a cost rate of 6.65 percent and common equity with a return on equity of 9.38 percent. The capital structure used by UIF is inconsistent with the capital structure used in the Utility's last rate case for Pasco County.¹⁵ In addition, Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all of the appropriate capital structure components. In this instance, the most recent period available is the 12 months ended December 31, 2015. UIF calculated a December 2015 ROR of 7.85 percent on Schedule F-5 of its 2015 Annual Report. However, UIF did not use the appropriate equity cost rate of 9.38 percent or the minimum 2.00 percent cost rate for customer deposits pursuant to Rule 25-30.311(4)(a), F.A.C. Based on the foregoing, staff recalculated a December 2015 ROR of 7.22 percent as shown in Schedule No. 2.

Operating Expense

UIF requested an increase to operating expense, excluding income taxes, of \$89,692 for Pasco County Phase II. The increase is based on increases for the abandoned well amortization, purchased water expense, and rate case expense that are partially offset by decreases in depreciation expense, O&M expense, and taxes other than income.

Depreciation Expense

UIF decreased its depreciation expense by \$22,778 as a result of the abandonment of the water wells. In staff's review of the Utility's filing, it was noted that an \$804 contributions in aid of construction (CIAC) component of the depreciation expense was not included in the total amount. Otherwise, the calculation of the depreciation expense reduction is in accordance with Rule 25-30.140, F.A.C. The inclusion of the \$804 CIAC component lowers the total depreciation expense reduction to \$21,974.

Abandoned Wells Amortization Expense

UIF calculated an annual amortization expense of \$65,022 for the recovery of the \$563,697 related to the retirement of the abandoned wells. This represents an 8.67 year amortization period. The \$563,697 is the sum of the \$363,697 net book value and the \$200,000 net cost to retire the abandoned wells. On Schedule No. 16 of its filing, UIF estimated that the gross cost to retire the abandoned wells was \$220,000. The Utility reduced the gross amount by \$20,000 for anticipated SWFWMD funding resulting in a net retirement cost of \$200,000.

In its response to OPC's February 2, 2016 letter outlining certain issues and concerns, UIF stated that the hydro tank at well 13 would either be relocated to an Orangewood system well site or have no salvage value.¹⁶ At the September 13, 2016 Commission Conference, OPC noted that testimony filed in the consolidated rate case in Docket No. 160101-WS stated that the hydro tank will be repurposed at the Cypress Lakes system.¹⁷ Subsequent to the Commission Conference held on September 13, 2016, OPC submitted a letter concerning the calculation of the

¹⁵ 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*, p.65.

¹⁶ Document No. 01120-16, p.6

¹⁷ Document No. 07710-16, p.49 (Commission Conference Transcript)

amortization expense.¹⁸ OPC raised concerns about the value of a hydro tank that will be transferred for use by a system in another county. The net book value of the hydro tank included in the calculation is \$57,622 which does not include any salvage value. UIF filed a response to OPC's letter on September 22, 2016, stating that the salvage value would be less than \$5,000.¹⁹ In staff's opinion, the approximate salvage value of \$5,000 should be recognized as a reduction to the net book cost of \$363,697 used in the amortization expense calculation.

Rule 25-30.433(9), F.A.C., prescribes the calculation for determining the appropriate amortization period for forced abandonment or the prudent retirement of plant assets prior to the end of their depreciable life. Based on the amounts in its filing, UIF followed the specified calculation except for the return on net book value amount and the hydro tank salvage value. The Utility applied the 8.03 percent rate of return to the total cost of \$563,697 rather than just the net book value of \$363,697. Rule 25-30.433(9), F.A.C., specifically states that the amount should be "equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement."

In its calculation, staff used its recommended 7.22 percent rate of return and applied it against the net book value of \$358,697. This results in an annual amortization expense of \$45,633 and an amortization period of 12.24 years. UIF and staff's calculations are summarized in Table 1-1 below. Because the \$220,000 gross retirement cost and the \$20,000 of anticipated State funding are only estimates, staff believes that these amounts should be reviewed in the upcoming consolidated rate case and be adjusted if needed. In addition, the use of the hydro tank and its estimated \$5,000 salvage value should also be reviewed and adjusted if needed.

¹⁸ Document No. 07491-16

¹⁹ Document No. 07735-16

**Table 1-1
 Abandoned Wells Amortization Expense Increase**

	UIF	STAFF
Net Book Value	\$363,697	\$363,697
Tank Salvage Value	0	(5,000)
Net Cost to Retire	<u>200,000</u>	<u>200,000</u>
Total Cost	<u>\$563,697</u>	<u>\$558,697</u>
Rate of Return	<u>8.03%</u>	<u>7.22%</u>
Return on Net Book Value	\$45,287	\$25,898
Depreciation Expense	<u>19,735</u>	<u>19,735</u>
Annual Amortization Expense	<u>\$65,022</u>	<u>\$45,633</u>
Amortization Period	8.67 Years	12.24 Years

O&M Expense

UIF requested an increase of \$56,941 to O&M expense. The increase is based on increases for purchased water expense and rate case expense that are partially offset by a decrease in O&M expense related to the abandoned wells.

Well Abandonment O&M Expense

UIF included an O&M expense decrease of \$46,245 related to the well abandonments.²⁰ This was an annualized amount based on actual O&M expenses for the 11 months ended November 30, 2015. In response to a staff data request, the Utility updated the amounts to include the actual amounts for the 12 months ended December 31, 2015. This resulted in a \$48,609 decrease in O&M expenses.²¹ Staff has reviewed the items included in the O&M expense reduction and they appear to be appropriate. The calculation of the \$48,609 O&M expense reduction is shown in Table 1-2 below.

**Table 1-2
 Well Abandonment O&M Expense**

Expense Category	Amount
Electric Power – Water System	\$10,453
Chemicals	11,769
Outside Service Expense	1,260
Salaries and Wages	3,000
Fleet Transportation Expense	1,000
Maintenance Testing	6,000
Maintenance – Water Plant	<u>15,127</u>
Total O&M Decrease	<u>\$48,609</u>

²⁰ UIF Petition, Schedule No. 17

²¹ Document No. 00869-16, Staff's First Data Request No. 3

Purchased Water Expense

UIF sold 55.5 million gallons of water in the Summertree subdivision during 2014. In calculating the purchased water expense necessary to replace the water previously produced by its abandoned wells, the Utility reduced the gallons sold by 32.4 million gallons to reflect the reduction in irrigation-related sales. In determining the total gallons of water to be purchased, UIF added 2.3 million gallons (10 percent) for flushing and another 2.3 million gallons (10 percent) for other losses. Per Rule 25-30.4325(1)(e), F.A.C., excessive unaccounted for water (EUW) is unaccounted water in excess of 10 percent of the amount of water produced. In rate cases, it is Commission practice to only make EUW adjustments if the 10 percent threshold is exceeded.²² In staff’s opinion, UIF’s estimated 10 percent factor for “other losses” appears to be reasonable. UIF then calculated an estimated purchased water expense of \$99,101 based on the purchase of 27.8 million gallons from Pasco County at a bulk water rate of \$3.57/Kgal. This rate is established in the Bulk Water Agreement (Attachment A) in Section III, paragraph D, page 4 of 11. Staff has reviewed the Utility’s calculation methodology and agrees that it is appropriate.

In response to a staff data request concerning the possible inclusion of duplicate bills in its calculation on Schedule No. 15 of its filing, UIF updated the amount of the reduced irrigation gallons to 30.7 million.²³ Using UIF’s methodology and the updated amount of reduced irrigation gallons, staff has calculated a purchased water expense of \$106,398. A comparison of the Utility’s calculation and staff’s calculation is presented in Table 1-3 below.

**Table 1-3
 Pasco County Phase II Purchased Water Expense Calculation**

	UIF	Staff
Total Gallons Sold – Summertree (2014)	55,541,000	55,541,000
Irrigation Gallons Reduction	(32,408,260)	(30,704,830)
Gallons Difference	23,132,740	24,836,170
Water Gallons Needed for Flushing (10%)	2,313,274	2,483,617
Other Losses (10%)	2,313,274	2,483,617
Total Water Needed From Pasco County	27,759,288	29,803,404
Bulk Water Rate (\$/Kgal)	\$3.57	\$3.57
Total Cost of Purchased Water	\$99,101	\$106,398

Rate Case Expense

UIF estimated that rate case expense would be \$16,338, resulting in a 4-year amortization of \$4,085. In its petition, UIF included all of the rate case expense associated with the Pasco County portion of the filing in the Phase I portion of its filing. Staff has included the rate case expense related to Pasco County in Phase II because the primary focus of Phase I was to calculate the gallonage reduction related to the loss of irrigation customers. This information is required to calculate the appropriate purchased water expense for Phase II. Based on the decision

²² 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*, p.8.

²³ Document No. 00869-16, Staff’s First Data Request No. 21.

in Order No. PSC-16-0296-PAA-WS,²⁴ which addressed the amount of rate case expense related to Marion and Seminole Counties and updated amounts for Pasco County from the Utility,²⁵ UIF has provided a revised rate case expense for Pasco County of \$25,090.

Based on a review of the rate case expense of \$25,090, staff has made two adjustments. Mr. Friedman, the attorney representing UIF, will be traveling to attend the Commission Conference scheduled for October 11, 2016. In addition to UIF, Mr. Friedman also will be representing another unrelated utility²⁶ at the Commission Conference in Docket No. 150010-WS. Mr. Friedman bills UIF \$2,880 for 8 hours of travel time to attend the Commission Conference, as well as \$510 for travel related expenses. Because Mr. Friedman will be representing two clients at the Commission Conference, staff believes that UIF should only be billed for half of the estimated travel related expenses. As a result, the total estimated rate case expense should be reduced by \$1,695, resulting in an adjusted total of \$23,395. The 4-year amortization amount is \$5,849 as shown on Schedule No. 3. The 4-year rate reduction for rate case expense is \$6,112.

Based on staff's adjustments, the recommended net increase in O&M expense is \$63,638.

Taxes Other Than Income

The Utility included decreased taxes other than income (TOTI) of \$9,493. The reduction was due to a decrease in property taxes as a result of the retirement of the wells. Staff has made an adjustment to recognize the effect on payroll taxes from the \$3,000 reduction in O&M salary expense. The FICA,²⁷ FUTA²⁸ and SUTA²⁹ composite rate is 14.67 percent. The resulting adjustment is a reduction of \$440 ($\$3,000 \times 14.67$ percent). The adjusted total TOTI reduction is \$9,933.

Based on staff's review, the appropriate operating expense increase, excluding income taxes, is \$77,364 as shown in Schedule No. 1 attached to this recommendation.

Calculation of Water Rate Increase

UIF calculated a rate increase of \$52,547 (or 6.05 percent) for Pasco County Phase II. Based on the adjustments discussed above, staff has calculated a water rate increase of \$47,836 (or 5.45 percent) for Pasco County Phase II as shown in Schedule No. 1. The Bulk Water Agreement with Pasco County (Attachment A) contains a provision that Pasco County is not obligated to provide service, nor is UIF obligated to purchase service, "until the rates necessary to receive such service have been approved by the Florida Public Service Commission"³⁰ (Section VIII, paragraph G, page 10 of 11).

²⁴ Order No. PSC-16-0296-PAA-WS, issued July 27, 2016.

²⁵ Documents No. 05631-16 and 07735-16

²⁶ Docket No. 150010-WS, Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

²⁷ Federal Insurance Contributions Act (7.65 percent)

²⁸ Federal Unemployment Tax Act (6.00 percent)

²⁹ State Unemployment Tax Act (1.02 percent)

³⁰ Document No. 07147-16, p.10 (see Attachment A)

Issue 2: What is the appropriate application of the recommended rate increase and the effective date and implementation date?

Recommendation:

- Staff's recommended rate increase of 5.45 percent for Pasco County should be applied as an across-the-board increase to existing service rates for the Orangewood and Summertree systems.
- The rates, as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates.
- In addition, the approved rates should not be implemented until the interconnection is in-service and staff has approved the proposed customer notice and the notice has been provided to the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed up for regulatory assessment fees and amortized over a 4-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. (Johnson)

Staff Analysis: Staff recommends that service rates for UIF be designed to allow the Utility the opportunity to generate annual service revenues of \$925,458 for Pasco County. The annualized service revenues before the rate increase are \$877,622,³¹ resulting in a \$47,836 increase to services revenues. The corresponding percentage increase is 5.45 percent. Due to relatively low increase, staff recommends that the increase should be applied across-the-board to existing service rates.

Staff recommends that the rate increase of 5.45 percent for Pasco County be applied as an across-the-board increase to existing service rates for the Orangewood and Summertree systems. The rates,³² as shown on Schedule No. 4, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the interconnection is in-service and staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed up for regulatory assessment fees and amortized over a 4-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.

³¹ Document No. 06975-16

³² The recommended rates are for illustrative purposes only because the interim rate case rates will be implemented prior to the effective date for the LIMP rates.

Issue 3: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party whose interests are substantially affected other than the Utility?

Recommendation: Yes. The recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party whose interests are substantially affected other than the Utility. UIF should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until after the interconnection is in-service, staff has approved the proposed notice, the notice has been received by the customers, and only after the Utility has provided written guarantee of its corporate undertaking in a cumulative amount of \$73,812. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. (Mouring, Slemkewicz, D. Buys, Mapp)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. As a result, staff recommends that the recommended rates be approved as temporary rates.

Section 367.0822(1), F.S., provides

Upon petition or by its own motion, the commission may conduct limited proceedings to consider, and action upon, any matter within its jurisdiction, including any matter the resolution of which requires a utility to adjust its rates. The commission shall determine the issues to be considered during such a proceeding and may grant or deny any request to expand the scope of the proceeding to include other related matters. However, unless the issue of rate of return is specifically address in the limited proceeding, the commission shall not adjust rates if the effect of the adjustment would be to change the last authorized rate of return.

While Section 367.0822(1), F.S., does not expressly provide for the granting of temporary rates, it is well settled Commission precedent that temporary rates in the event of a protest may be approved on a case-by-case basis.³³

Further, Section 367.081(2), F.S., provides that this Commission must fix rates that are just, reasonable, compensatory, and not unfairly discriminatory. Pursuant to its authority to grant just and reasonable rates, the Commission has granted emergency and temporary rates in limited

³³ Order No. PSC-09-0651-PAA-SU, issued September 28, 2009, in Docket No. 090121-SU, *In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.*; and Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 090349-WS, *In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.*

proceedings where a timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Similarly, in the instant case, staff believes that the granting of temporary rates is warranted because a timely protest of the PAA Order may delay a justified rate increase for several months while the matter is adjudicated at hearing. Moreover, staff believes that the ratepayers are adequately protected because all rates collected by the Utility will be subject to the corporate undertaking as discussed below.

For the foregoing reasons, staff believes that the recommended rates should be approved for the Utility on a temporary basis, subject to the corporate undertaking discussed below. In order to ensure that the Utility may not unfairly benefit from the issuance of temporary rates and in order to comport with the granting of temporary rates in proceedings filed pursuant to Sections 367.081 and 367.0814, F.S., staff further recommends that temporary rates only be allowed in the event of a protest filed by an entity or individual other than the Utility

Corporate Undertaking Memorandum

UIF is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the amount subject to refund for Pasco County, the incremental increase in UI's corporate undertaking is \$31,891. In Order No. PSC-16-0296-PAA-WS, the Commission approved UI's request for a corporate undertaking for Marion and Seminole Counties of \$30,961 and \$10,960, respectively. The total corporate undertaking amount currently outstanding is \$41,921. Based on the amount subject to refund for Pasco County, the total cumulative outstanding guarantee would increase to \$73,812.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2013, 2014, and 2015 financial statements to determine if the company can support a corporate undertaking on behalf of its subsidiary. In its 2013 financial statements, UI reported an insufficient working capital amount and an inadequate current ratio and interest coverage ratio. In 2014, UI reported insufficient working capital and an inadequate current ratio; however, the interest coverage ratio improved to adequate. In 2015, UI had sufficient working capital, and both the current ratio and interest coverage ratio were adequate. In addition, UI achieved sufficient profitability and reported adequate ownership equity over the entire 3-year review period.

Based on staff's review of the financial reports submitted by UI, staff believes UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a cumulative corporate undertaking of \$73,812 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities).

The brief financial analysis above is only appropriate for deciding if UI can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

The Utility should maintain a record of the amount of the corporate undertaking memorandum, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission

Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month.

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

Conclusion

The recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. UIF should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until after the interconnection is in-service and staff has approved the proposed notice, and the notice has been received by the customers. The temporary rates should only be implemented after the Utility has provided written guarantee of its corporate undertaking in a cumulative amount of \$73,812. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed in staff's analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month.

Issue 4: Should this docket be closed?

Recommendation: 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. (Mapp)

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.

UTILITIES, INC. OF FLORIDA - PASCO COUNTY - PHASE II		SCHEDULE NO. 1	
WATER REVENUE REQUIREMENTS INCREASE		DOCKET NO. 150269-WS	
		MODIFIED UTILITY FILING (a)(b)(c)	STAFF RECOMMENDATION
<u>Line No.</u>			
1	Utility Plant in Service (UPIS)	-	-
2	Retirements	(\$363,697)	(\$363,697)
3	Accumulated Depreciation	-	-
4	Contributions in Aid of Construction (CIAC)	-	-
5	Accumulated Amortization of CIAC	-	-
6	Cash Working Capital	7,118	7,955
7	Total Increase in Rate Base	(\$356,579)	(\$355,742)
8	Weighted Cost of Capital	8.03%	7.22%
9	Return Required	(\$28,633)	(\$25,685)
10	Decrease in Depreciation Expense Due to Retirements	(\$22,778)	(\$21,974)
11	Increase in Recovery of Abandoned Wells	65,022	45,633
12	Increase in CIAC Amortization	-	-
13	Decrease in O&M from Well Abandonments	(46,245)	(48,609)
14	Increase In O&M for Purchased Water Expense	99,101	106,398
15	Increase in Rate Case Expense	4,085 (c)	5,849
16	Decrease in Taxes Other Than Income Taxes	(9,493)	(9,933)
17	Total Increase in Operating Expenses Before Income Taxes	\$89,692	\$77,364
18	Total Taxable Income	(\$28,633)	(\$15,688)
19	Multiply by State Income Tax (5.5%)	(1,575)	(863)
20	Total Federal Taxable Income	(\$27,058)	(\$14,825)
21	Multiply by Federal Income Tax (34%)	(9,200)	(5,041)
22	Total Revenue Increase Before RAF (L9 + L17 + L19 + L21)	\$50,284	\$45,776
23	Multiply by RAF (4.5%)	2,263	2,060
24	Total Water Revenue Increase	\$52,547	\$47,836
25	Annualized Revenues	\$868,816 (a)(b)	\$877,622
26	Percentage Increase in Rates	6.05%	5.45%
27	4-Year Rate Reduction (Rate Case Expense)		\$6,112

NOTES:

- (a) Adjusted by staff to exclude the Pasco County - Phase I increase
- (b) Adjusted by staff to exclude revenues for reduced irrigation customer volumes
- (c) Adjusted by staff to include rate case expense

UTILITIES, INC. OF FLORIDA			SCHEDULE NO. 2	
CAPITAL STRUCTURE			DOCKET NO. 150269-WS	
DECEMBER 31, 2015				
	AMOUNT	RATIO	COST RATE	WEIGHTED COST
<u>PER 2015 ANNUAL REPORT</u>				
Common Equity	\$5,330,494	46.96%	10.69%	5.02%
Preferred Stock	-	0.00%	0.00%	0.00%
Long Term Debt	4,751,261	41.86%	6.66%	2.79%
Short Term Debt	14,899	0.13%	10.08%	0.01%
Customer Deposits	53,988	0.48%	6.00%	0.03%
Tax Credits - Wtd. Cost	-	0.00%	0.00%	0.00%
Deferred Income Taxes	1,199,429	10.57%	0.00%	0.00%
Total	<u>\$11,350,071</u>	<u>100.00%</u>		<u>7.85%</u>
<u>STAFF RECOMMENDATION</u>				
Common Equity	\$5,330,494	46.96%	9.38%	4.41%
Preferred Stock	-	0.00%	0.00%	0.00%
Long Term Debt	4,751,261	41.86%	6.66%	2.79%
Short Term Debt	14,899	0.13%	10.08%	0.01%
Customer Deposits	53,988	0.48%	2.00%	0.01%
Tax Credits - Wtd. Cost	-	0.00%	0.00%	0.00%
Deferred Income Taxes	1,199,429	10.57%	0.00%	0.00%
Total	<u>\$11,350,071</u>	<u>100.00%</u>		<u>7.22%</u>

UTILITIES, INC. OF FLORIDA - PASCO COUNTY - PHASE II						SCHEDULE NO. 3
RATE CASE EXPENSE						DOCKET NO. 150269-WS
	UIF FILING PHASE I	EXPENSES (a) AS OF 7/7/16	UIF ADJUSTED PRIOR ADDITIONAL EXPENSES (b)(c)	NEW ADDITIONAL EXPENSES (c)	STAFF ADJUSTMENTS	UPDATED TOTAL
Filing Fee	\$750	\$750	\$0	\$0	\$0	\$750
Legal Fees	12,000	7,152	4,860	6,660	(1,440)	17,232
Legal Expenses	0	843	1,376	515	(255)	2,479
Customer Notices	2,840	1,963	0	0	0	1,963
FedEx	0	103	0	0	0	103
UIF Travel Costs	749	0	434	434	0	868
Total Rate Case Expense	<u>\$16,339</u>	<u>\$10,811</u>	<u>\$6,670</u>	<u>\$7,609</u>	<u>(\$1,695)</u>	<u>\$23,395</u>
4-Year Amortization	<u>\$4,085</u>					<u>\$5,849</u>
Notes:						
(a) Document No. 04394-16						
(b) Document No. 05631-16						
(c) Document No. 07735-16						

UTILITIES, INC. OF FLORIDA - PASCO COUNTY		SCHEDULE NO. 4	
MONTHLY WATER RATES		DOCKET NO. 150269-WS	
	UTILITY CURRENT RATES	*STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service - Orangewood</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$11.81	\$12.45	\$0.08
3/4"	\$17.72	\$18.68	\$0.12
1"	\$29.53	\$31.13	\$0.21
1-1/2"	\$59.03	\$62.25	\$0.41
2"	\$94.45	\$99.60	\$0.66
3"	\$188.90	\$199.20	\$1.31
4"	\$295.17	\$311.25	\$2.05
6"	\$590.33	\$622.50	\$4.11
Charge per 1,000 gallons	\$5.45	\$5.75	\$0.04
<u>Residential and General Service - Summertree</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$11.19	\$11.80	\$0.08
3/4"	\$16.78	\$17.70	\$0.12
1"	\$27.96	\$29.50	\$0.19
1-1/2"	\$55.91	\$59.00	\$0.39
2"	\$89.45	\$94.40	\$0.62
3"	\$178.91	\$188.80	\$1.25
4"	\$279.55	\$295.00	\$1.95
6"	\$549.02	\$590.00	\$3.89
Charge per 1,000 gallons	\$5.17	\$5.45	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Orangewood</u>			
2,000 Gallons	\$22.71	\$23.95	
6,000 Gallons	\$44.51	\$46.95	
10,000 Gallons	\$66.31	\$69.95	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison - Summertree</u>			
2,000 Gallons	\$21.53	\$22.70	
6,000 Gallons	\$42.21	\$44.50	
10,000 Gallons	\$62.89	\$66.30	
*The recommended rates are for illustrative purposes only because the interim rate case rates will be implemented prior to the effective date for the LIMP rates.			

FILED AUG 31, 2016
DOCUMENT NO. 07147-16
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding water rate
Increase in in Marion, Pasco and Seminole
Counties by Utilities, Inc. of Florida

Docket No. 150269-WS

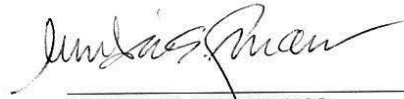
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NOTICE OF FILING

Applicant, UTILITIES, INC. OF FLORIDA, by and through its undersigned attorneys,
hereby gives notice of filing, in the above-referenced docket, of the fully executed Bulk Water
Agreement with Pasco County.

Respectfully submitted this 30th day of
August, 2016, by:

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For the Firm

BULK WATER AGREEMENT

THIS AGREEMENT is made and entered into by and between PASCO COUNTY, a political subdivision of the State of Florida, acting by and through its Board of County Commissioners, the governing body thereof, hereinafter referred to as the "COUNTY," and UTILITIES, INC. OF FLORIDA, a corporation authorized to conduct business within the State of Florida, hereinafter referred to as the "UTILITY."

WITNESSETH:

WHEREAS, the UTILITY has received a certificate from the Florida Public Service Commission authorizing the provision of public water service to a franchised service area, hereinafter referred to as "SUMMERTREE", as illustrated in Exhibit A, located within the COUNTY pursuant to Chapter 367.041, Florida Statutes; and,

WHEREAS, the UTILITY has requested that the COUNTY provide bulk water supply service to replace its existing supply for service to the customers of the UTILITY'S system; and,

WHEREAS, subject to the conditions and limitations set forth herein, the COUNTY is willing to provide limited bulk water supply services to the UTILITY for the purpose of replacing its existing water supply; and,

WHEREAS, given the availability of an adequate bulk water supply from the COUNTY, the UTILITY has elected to abandon its existing water supply wells and water treatment facilities; and,

WHEREAS, the State of Florida, through the Florida Department of Environmental Protection has offered a grant of \$1 million to be applied toward the COUNTY's applicable water capacity fees that would otherwise be paid by UTILITY and toward the cost of constructing an interconnection project; and,

WHEREAS, the COUNTY, in order to provide quality water service to the SUMMERTREE customers, is willing to design, supplement the cost of, and construct facilities necessary to provide such bulk water supply services:

NOW, THEREFORE, in consideration of the premises, which shall be deemed an integral part of this Agreement and of the mutual covenants and conditions set forth herein, the COUNTY and UTILITY intending to be legally bound thereby, agree as follows:

Section I. Whereas Clauses

The WHEREAS clauses set forth above are incorporated herein by reference and made a part of this Agreement.

Section II. Purpose

The purpose and intent of this Agreement is for the COUNTY to provide limited bulk potable water supply to the UTILITY so it may abandon its existing SUMMERTREE wells and replace its existing water supply for water services to the homes and structures located in SUMMERTREE and to provide for assurances of timely payment from the UTILITY to the COUNTY of all County-approved rates and charges. All terms and conditions contained herein shall be read and interpreted in a manner consistent with and in furtherance of this purpose and intent.

Section III. Bulk Water Service

A. Subject to the conditions and limitations set forth in this Agreement, the COUNTY shall provide bulk water supply services to the UTILITY in the amounts and at the times specified in the design of the interconnection(s) to be approved by the COUNTY and the UTILITY. Such service shall be provided by interconnecting the COUNTY'S existing water transmission facilities to the UTILITY's distribution system as mutually determined and agreed to. The COUNTY, with the aid of any available state funding, will finance and construct the interconnection. The COUNTY shall design the connection based on the maximum flow rates set forth in Section VII. The plans and specifications describing the location and type of connection to the UTILITY must be approved in writing by the UTILITY prior to the time the work is actually performed. Such work shall be performed by the COUNTY and monitored by the UTILITY for conformance with the COUNTY approved connection requirements and the work must also meet all applicable State and COUNTY standards and regulations. The COUNTY will ensure that the construction meets all COUNTY standards.

B. Connection to the COUNTY water system shall require furnishing and installing an appropriate metering assembly meeting all COUNTY requirements and specifications at all approved points of connection. The metering assembly must be acceptable to the COUNTY for the purpose of determining the

volume of water being provided by the COUNTY to the UTILITY pursuant to this Agreement. The County will furnish and install the meter assembly or assemblies. The COUNTY shall own, operate, and maintain the meter assemblies, and the COUNTY shall have the absolute right of access to the meters for operation, maintenance, calibration, reading, and repairs as necessary to maintain the functionality and integrity of the COUNTY'S water distribution system. The UTILITY shall also be provided the right of reasonable access to the meter assemblies for testing and reading purposes with the County present.

C. Meter Reading and Payments: The COUNTY will invoice the UTILITY for services on a monthly basis in accordance with meter readings, calculated charges, and other applicable service fees identified in Exhibit B attached hereto. The COUNTY may amend the service fees identified in Exhibit B at any time and shall give UTILITY at least 90 days prior written notice of such amendment. The UTILITY shall make payment based upon the invoice amount within thirty (30) days after receipt of the invoice from the COUNTY. In the event that the payment is not made within thirty (30) days after receipt of the invoice, the UTILITY agrees to pay interest or penalties as established in the COUNTY'S utility system service regulations on the outstanding balance until paid in full. Nothing contained herein, including the charging of interest, shall extend the due date for any payment and any failure to pay on or before the due date shall be considered a default under the terms of this Agreement entitling the COUNTY to pursue those remedies set forth in the default section. In the event the UTILITY disputes the accuracy of any meter reading, it must notify the COUNTY within fifteen (15) days of billing and demonstrate through appropriate calibration testing that the meter is either not properly calibrated or is not functioning properly. All meter readings not disputed within fifteen (15) days of receipt of the applicable bill by the UTILITY will be final and not subject to dispute. In the event the UTILITY disputes the billing, it shall still pay the amount billed by the COUNTY unless the error is self-evident or obvious when compared to typical average usage and/or historical flows. If it is subsequently determined, in accordance with the procedure specified below, that the billing is in error in favor of the UTILITY, then the UTILITY will be reimbursed or credited for any difference within forty five (45) days of such determination. In the event of any unresolved dispute concerning the meter's performance or accuracy, the parties agree to utilize the meter testing services of the Florida Rural Water Association or other mutually selected independent

testing company qualified to measure meter accuracy and performance. If the parties are unable to agree on an independent testing company, they will each select an independent testing company, and the two selected companies shall choose a third independent testing company who shall perform appropriate tests upon the meter(s). The decision of the testing company chosen pursuant to this paragraph as to the meter's performance or accuracy shall be binding upon the parties. In the event the meter is determined to be accurate within the manufacturer's range of tolerance, then the cost of testing shall be paid by the UTILITY. If the meter is determined to be inaccurate and outside the manufacturer's range of tolerance, then the COUNTY shall pay for the cost of testing.

D. Monthly Service Rate: The UTILITY agrees to pay the COUNTY'S bulk water service rate, effective October 1, 2014, which is currently Three and 57/100 Dollars (\$3.57) per thousand gallons of water based solely upon the meter readings obtained from the SUMMERTREE bulk meter assembly or assemblies. This initial user service rate, including any or all components thereof, may be adjusted upward or downward by the Board of County Commissioners from time to time in accordance with the COUNTY'S rate-setting procedure, for the County's bulk rate customer class. In the event of a rate change, the COUNTY shall provide the UTILITY with 90 days prior written notice so that the UTILITY can complete the required filing with the Florida Public Service Commission for the pass through of that rate change.

E. Connection Fees: The COUNTY agrees to fund all applicable connection fees with available state funds. The initial connection fee shall be Eight Hundred Ninety-Six Thousand, One Hundred Forty-One and 00/100 Dollars (\$896,141.00) reflecting the provision of water service by the COUNTY to the UTILITY's existing customers as described in the attached composite Exhibit C. Subsequent to the execution of this Agreement, UTILITY shall pay the COUNTY additional water connection fees as authorized by COUNTY ordinance, as may be amended, for each new service connection or upgraded service connection. If a parcel not identified in composite Exhibit C is provided with service by the UTILITY then it shall be deemed a New Service Connection and charged the appropriate impact fee. If any parcel in the service area is re-developed in such a manner that its current meter size is increased, it shall be deemed an Upgraded Service Connection, which shall be charged an impact fee equivalent to the increase in service capacity. Water impact

fees payable by UTILITY to the COUNTY shall be calculated for each New Service Connection or Upgraded Service Connection in the manner designated under the COUNTY ordinance, as may be amended. UTILITY shall pay the COUNTY water impact fees due hereunder before the additional service is provided. The COUNTY shall have the right to request and receive from the UTILITY a report identifying all New Service Connections or Upgraded Service Connections along with documentary support to substantiate the information provided in such report, at no cost to the COUNTY. The COUNTY shall not request such a report more than once per month.

F. Service Commitment: The COUNTY shall use its best efforts to provide the water capacity required pursuant to the terms of this Agreement. Any failure by the COUNTY to provide the water capacity required pursuant to the terms of this Agreement shall be considered a material default for purposes of Section V hereof. In the event of such material default, the UTILITY reserves the right to terminate the Agreement unilaterally or to pursue other remedies as identified in Section V of this Agreement. However, the COUNTY shall not be liable for damages to the UTILITY or be considered in default as a result of its inability to provide water services pursuant to this Agreement when such inability is attributable to equipment failure, regulatory restrictions, or uncontrollable circumstances and where the UTILITY is being affected and treated in a similar manner as other customers of the COUNTY'S service area.

G. Public Water Distribution System: The UTILITY, at its expense, shall:

1. Maintain and repair its entire water distribution system (defined as the UTILITY'S facilities located on the UTILITY'S side of any meter(s) installed to measure water provided to the UTILITY by the COUNTY), including all lines, valves, meters, and other facilities and appurtenances that are located on its side of the water meter(s) that the COUNTY utilizes for determining monthly billing.

2. Cause to be conducted all investigations and testing that may be required in order for the UTILITY to effect additional service connections to the COUNTY'S water transmission system, including all design, construction, repair, and maintenance of the said connection equipment if necessary.

3. Cause all water lines, valves, meters, and other facility appurtenances that are located on the UTILITY'S side of the water meter to be repaired and maintained in accordance with sound utility management practices.

4. Pay for all metered water and any other costs or fees as provided herein.

H. Permit. The UTILITY shall have the responsibility of securing and maintaining all necessary permits from all governmental agencies having regulatory authority over the UTILITY'S public water distribution system. The COUNTY shall have the same responsibility as to its water system. However, where governmental regulations require the UTILITY to obtain permits and/or develop reports and other documents that require the UTILITY to obtain data from the COUNTY related to its water system, the COUNTY will provide all needed data to the UTILITY in a timely manner and assist the UTILITY to the extent necessary for the UTILITY to comply with such governmental regulations at no additional cost to the UTILITY. In complying with all regulatory requirements, the parties shall work cooperatively and use their respective best efforts including, but not limited to, providing to the other party or agency, as applicable from time to time, information that will enable the other party to comply with any such regulatory requirements in a timely manner.

Section IV. General Provisions

A. These conditions are binding upon the successors and assignees of the parties hereto. Whenever one (1) party gives notice to the other party concerning any of the provisions of this Agreement, such notice shall be given by certified mail, return receipt required. The notice shall be deemed given when it is deposited in the United States mail with sufficient postage prepaid (notwithstanding that the return receipt is not subsequently received). Notices shall be addressed as follows:

COUNTY:	Utilities Services Branch Utilities Admin. Bldg. 19420 Central Blvd. Land O' Lakes, FL 34637-7006
UTILITIES INC.:	Utilities, Inc. of Florida 200 Weathersfield Avenue Altamonte Springs, FL 32714-4027 Attention: President

WITH COPY TO: Utilities, Inc.
 2335 Sanders Road
 Northbrook, IL 60062
 Attention: General Counsel

These addresses may be changed by giving notice as provided for in this paragraph.

B. No waiver of any breach of any of the terms of this Agreement shall be construed to be a waiver of any succeeding breach.

Section V. Default

If either party materially fails or defaults in keeping, performing, or abiding by the terms and provisions of this Agreement, then the non-defaulting party shall give written notice to the defaulting party specifying the nature of the default. If the defaulting party does not cure the default within thirty (30) days after the date of written notice, then this Agreement, at the option of the non-defaulting party, may be terminated. In the event either party elects to terminate pursuant to this section, such termination shall include the cessation of bulk water services. Neither party shall be relieved of liability to the other for damages sustained by virtue of any party wrongfully exercising this provision. This paragraph is not intended to replace any other legal or equitable remedies available to any non-defaulting party under Florida law, but it is in addition thereto. Notwithstanding the foregoing, any failure to make timely payments shall be considered a material default under the terms of this Agreement without the necessity for any written notice.

Section VI. Utility System Charges

The UTILITY shall seek approval from the Florida Public Service Commission to fix, revise, maintain, and collect such fees, rates, rentals, or other charges for the use of the products, services, and facilities of its utility system as shall be necessary to fund the timely payment of its respective obligations and liabilities under this Agreement. The UTILITY shall maintain its utility system operation and maintenance accounts throughout the term of this Agreement for the purpose of paying its obligations and liabilities hereunder. Notwithstanding any other provisions of this Agreement, the rates and charges assessed by the COUNTY to the UTILITY for the water services provided herein, shall be no higher than those provided to any other similar situated customer of COUNTY's services at the time of execution of this Agreement or any time in the future.

Section VII. Level of Service

A. Service by the COUNTY shall begin after the COUNTY'S acceptance and implementation of the Bulk Water Meter Interconnection(s) and shall be limited to a total annual average daily flow of 200,000 gpd delivered at a flow rate and water pressure range as described in the design of the facilities at the designated point of connection(s) as conceptually shown on Exhibit D hereof.

B. Service by the UTILITY shall exclude service to all common area irrigation systems as all such previously existing irrigation service connections have been removed from the UTILITY's water distribution system. Non-potable water is being provided now and will be provided hereafter to all common area irrigation systems via on-site irrigation wells and associated piping systems.

C. The total amount of bulk water supply capacity, absent the flow consideration of 1,000 gpm for fire protection to be provided by the COUNTY under this Agreement, shall be limited to a maximum domestic flow rate of 250 gpm (peak domestic flow rate).

D. The water supplied by the COUNTY, at a minimum, shall meet all Federal (US Environmental Protection Agency) and State of Florida (Department of Environmental Protection) Drinking Water Standards as applicable at the point of delivery.

E. The COUNTY, either on its own initiative or upon the UTILITY's written request, will re-evaluate the sufficiency of the initial bulk water supply capacity required to accommodate new service connections or upgraded service connections, if any, to the UTILITY'S service area. The COUNTY will then modify or improve its facilities in order to provide adequate service to the UTILITY thereafter at no cost to the UTILITY. The UTILITY will forecast such new connections and make the COUNTY aware of such additional capacity requirements sufficient advance notice to allow the COUNTY adequate time to expand its infrastructure.

Section VIII. Miscellaneous Provisions

A. In the event the parties' performance of this Agreement is prevented or interrupted by consequence of an act of God, or of a public enemy, or national emergency, allocation, or other governmental restrictions upon the use or availability of labor or materials, rationing, civil insurrection, riot, racial or civil rights disorder or demonstration, strike, embargo, flood, tidal wave, fire, explosion, bomb detonation, nuclear fallout, windstorm, hurricane, sinkholes, earthquake, or other casualty or disaster or catastrophe, unforeseeable failure or breakdown of pumping, transmission, or other facilities, governmental rules (except those of the COUNTY in cases where the COUNTY seeks excuse of performance hereunder or acts or orders or restrictions of regulations or requirements, acts or actions of any government (except the COUNTY in cases where the COUNTY seeks excuse of performance hereunder or public or governmental authority, commission, board, agency, official, or officer (except those authorities, commissions, boards, agencies, officials, or officers of the COUNTY in cases where the COUNTY seeks excuse of performance hereunder, or judgment or a restraining order or injunction of any court, the party shall not be liable for such nonperformance, and the time of performance shall be extended for such time period that the party is diligently attempting to perform.

B. The parties hereto agree that from and after the date of execution hereof, each will execute and deliver upon the request of the other such other documents and instruments and take other actions as may be reasonably required to carry out the intent of this Agreement.

C. This Agreement shall not be considered an obligation on the part of the COUNTY or the UTILITY to perform in any way other than as indicated herein.

D. This Agreement shall be binding upon the heirs, representatives, and assigns of the parties hereto and the provisions hereof shall constitute covenants running with the land for the benefit of the heirs, representatives, and assigns of the party. However, this Agreement shall not be assigned by either party without the express written consent of the other party; however, such consent shall not be unreasonably withheld by such other party.

E. In the event the COUNTY, or authorized agent of the COUNTY, ever elects to exercise its power of eminent domain for the purpose of acquiring all, or any part of the water utility system which may be owned by the UTILITY, the COUNTY and the UTILITY agree that the COUNTY will not be required to pay the UTILITY for any value which may be attributable to the services provided by the COUNTY under the terms of this Agreement above the fair value of the facilities constructed hereunder and owned by the UTILITY and the cost of the water reserved hereunder.

F. Term: This Agreement shall have a term of twenty-five (25) years commencing on the date of execution of this Agreement. , Thereafter, the UTILITY may renew this Agreement for an additional twenty-five (25) years. The UTILITY shall notify the COUNTY within one (1) year prior to the expiration of the initial term of the decision whether to renew and the COUNTY agrees that its approval of such renewal will not be unreasonably withheld.

G. The UTILITY agrees that immediately upon execution by the COUNTY of this Bulk Water Agreement, the UTILITY will begin preparation of an appropriate filing with the Florida Public Service Commission requesting recognition and recovery of the additional cost of increased water purchased from the COUNTY. The UTILITY shall use its best efforts to obtain such approval. However, the UTILITY will have no obligation to begin purchasing such water until the rates necessary to receive such service have been approved by the Florida Public Service Commission. The COUNTY shall have no obligation to provide such additional bulk service until the rates covering the cost of such service to the UTILITY have been approved by the Florida Public Service Commission.

H. Each party acknowledges that it has played an equal role in drafting this Agreement and, as a result, in the event of any ambiguity contained herein, the same shall not be construed against or in favor of either party.

IN WITNESS WHEREOF, the parties hereto have executed the foregoing Agreement on this
9th day of August, 2016.



BOARD OF COUNTY COMMISSIONERS
OF PASCO COUNTY, FLORIDA

Paula S. O'Neil
PAULA S. O'NEIL, Ph.D., CLERK & COMPTROLLER
IN SESSION

Kathryn Starkey
KATHRYN STARKEY, CHAIRMAN

AUG 9 2016

PASCO COUNTY
BCC

UTILITIES INC. OF FLORIDA,

Sue DiPasquale
WITNESS (Signature)
Sue DiPasquale
(Print Name)

BY: John P. Hoy
JOHN P. HOY, PRESIDENT

Lisa August
WITNESS (Signature)
Lisa August
(Print Name)

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-

DATE: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Wooten, Ellis) *POE*
Office of the General Counsel (Trierweiler) *WJF*

RE: Docket No. 160140-EQ – Petition for approval of modifications to standard interconnection agreement contained in the approved tariff by Duke Energy Florida, LLC.

AGENDA: 10/11/16 – Regular Agenda – Tariff Filing - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 02/02/17 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

On June 2, 2016, Duke Energy Florida, LLC (Duke or Company) filed a petition for approval of modifications to its Interconnection Agreement (Agreement) contained in the approved tariff. The Agreement was created in 2014 by Order No. PSC-14-0589-PAA-EI, which separated the Company's as-available tariff from the Agreement for Qualifying Facilities (QFs).¹ The

¹Order No. PSC-14-0589-PAA-EI, issued October 21, 2014, in Docket No. 140137-EI, *In re: Petition for approval of modifications to tariff sheet Nos. 9.100 through 9.330 and tariff sheet Nos. 9.700 through 9.709 as-available purchase tariff and interconnection agreement, by Duke Energy Florida, Inc.*

Docket No. 160140-EQ
Date: September 29, 2016

agreement was last modified in 2015 by Order No. PSC-15-305-PAA-EQ along with Duke's Standard Offer Contract.²

On July 21, 2016, the Commission suspended the agreement to allow sufficient time for Commission staff to review the application and gather pertinent information.³

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

²Order No. PSC-15-305-PAA-EQ, issued July 28, 2015, in Docket No. 150106-EQ, *In re: Petition for approval of amended standard offer contract (Schedule COG-2) and amended interconnection agreement, by Duke Energy Florida, Inc.*

³Order No. PSC-16-0279-PCO-EQ, issued July 21, 2016, in Docket No. 160140-EQ, *In re: Petition for approval of modifications to standard interconnection agreement contained in the approved tariff by Duke Energy Florida, LLC.*

Discussion of Issues

Issue 1: Should the Commission approve Duke's proposed modifications to the Interconnection Agreement contained in its approved tariffs?

Recommendation: Yes. Staff recommends the Commission approve Duke's modifications to its Interconnection Agreement as shown in Attachment A. The new requirements clarify that the Agreement is intended for interconnections with Duke only and improves security to ratepayers by requiring insurance similar to other contracts. The proposed tariff modifications should not place an undue burden on QFs that seek to interconnect with Duke's system and deliver power to the Company. (Wooten)

Staff Analysis: In its petition Duke proposes to make certain changes to the approved tariff sheets 9.700 through 9.715 which contains the terms and conditions of Duke's Interconnection Agreement for QFs. The Company submitted a total of 15 revised sheets of the Interconnection Agreement. The type-and-strike format versions of the revised tariff sheets are included as Attachment A to this recommendation.

Interconnection Agreement Modifications

In its petition and in response to staff data requests, Duke notes that some of the proposed tariff changes are meant to reflect that the Agreement is to address non-Federal Energy Regulatory Commission (FERC) jurisdictional interconnections only. For example, proposed tariff sheet 9.700, paragraph 1.0 is modified to reflect that all net output will be sold to Duke. As a result, any QF wishing to sell power to another party would instead, use the Company's FERC interconnection tariff, instead of the proposed Agreement.

The proposed Agreement includes a new component to the preliminary cost study, a Feasibility Study, which is meant to provide a list of options available to the QF for its interconnection to narrow the analysis in determining costs. The estimated interconnection costs for all feasibility studies for a 50 MW QF is less than \$70,000, or approximately \$0.0014/watt. Section 4.2.2 on proposed Tariff Sheet 9.705 also adds a requirement that the QF provides cash or a letter of credit to Duke prior to interconnection field work being conducted. These new requirements seem reasonable, in that the Feasibility Study allows a QF to determine its desired interconnection option, while the credit requirement protects the Company's ratepayers in the event a QF would not reimburse Duke for interconnection costs.

Section 12 of the proposed Agreement adds liability insurance requirements, including consequences that clarify the results of failing to acquire or maintain insurance coverage. The minimum liability insurance requirement is \$1,000,000 per occurrence for bodily injury or property damage. While this increases costs to QFs, the requirement represents a reasonable practice and the language is similar to the insurance requirements included in the Company's Standard Offer Contract.⁴

⁴See Order No. PSC-16-0252-PAA-EQ, issued June 26, 2016, in Docket No. 160073-EQ, *In re: Petition for approval of amended standard offer contract (Schedule COG-2), by Duke Energy Florida, LLC.*

Additional legal terms are added to the agreement, including events of default, termination, assignment, references to controlling statutes, and representations that the parties are capable of legally conducting the agreement. These terms are reasonable and provide clarity in the event of a dispute regarding the contract terms. Other revisions to the Agreement include modifications to terminology and definitions with minor substantive changes.

Conclusion

Staff recommends the Commission approve Duke's modifications to its Interconnection Agreement as shown in Attachment A. The new requirements clarify that the Agreement is intended for interconnections with Duke only and improves security to ratepayers by requiring insurance similar to other contracts. The proposed tariff modifications should not place an undue burden on QFs that seek to interconnect with Duke's system and deliver power to the Company.

Issue 2: Should this docket be closed?

Recommendation: Yes. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Trierweiler)

Staff Analysis: If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.



SECTION No. IX
ORIGINAL FIRST REVISED SHEET No. 9.700
CANCELS ORIGINAL SHEET No. 9.700

INTERCONNECTION AGREEMENT

INTERCONNECTION ARRANGEMENTS SCHEDULING AND COST RESPONSIBILITY

1.0 Purpose

This Interconnection Agreement ("Agreement") sets forth the terms and conditions pursuant to which (“QF”) has agreed to comply with and pay Duke Energy Florida, LLC (“Company”) to interconnect with Company’s electrical system. This Agreement provides the procedures for the scheduling of construction for the Company’s Interconnection Facilities as well as the cost responsibility of the a QF Facility for the payment of Interconnection Costs. This Agreement also provides general for operating, testing, and inspection procedures intended to promote for the safe parallel operation of the Facility with the Company’s electrical system. This Agreement applies to QF’s, whether or not their Facility will be directly interconnected with the Company’s system and providing all net electrical output for sale to the Company. All requirements contained herein shall apply in addition to and not in lieu of the provisions of the Power Purchase Agreement.

2.0 Definitions

2.1 “Agreement” means this Interconnection Agreement.

2.1 “Company” means Duke Energy Florida, LLC.

2.2 “Company’s Interconnection Facilities” means all equipment located on the Company’s side of the Point of Delivery, including without limitation, equipment for connection, switching, transmission, distribution, protective relaying and safety provisions which in the Company’s judgment sole discretion are required to be installed for the delivery and into the Company’s system, measurement of electric energy into the Company’s system on behalf of injected into the Company’s system, and upgrades to the Company’s electrical system required for the Company to receive, use, and deliver the energy to Company’s load QF, including all metering and telemetering equipment installed for the measurement of such energy delivered by the Facility, regardless of its the Facility’s location in relation to the Point of Delivery.

2.3 “Default” means the failure of a breaching Party to cure its breach under this Agreement. “Execution Date” means the date on which the Company executes this Agreement.

2.4 “Facility” means all equipment, as described in this Agreement, used to produce electric energy and, for a cogeneration facility, used to produce useful thermal energy through the sequential use of energy.

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL FIRST REVISED SHEET No. 9.700
CANCELS ORIGINAL SHEET No. 9.700

~~2.5 “Interconnection Costs” means the actual costs incurred by the Company for the Company’s Interconnection Facilities, including, without limitation, the cost of equipment, engineering, communication and administrative activities.~~

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL FIRST REVISED SHEET No. 9.701
CANCELS ORIGINAL SHEET No. 9.701

- 2.4 “Emergency Condition” means (a) any urgent, abnormal, operationally unstable, dangerous, and/or public safety condition that is existing on the Company’s system; (b) any urgent, abnormal, operationally unstable, dangerous, and/or public safety condition that is likely to result in any of the following: (i) loss or damage to the Facility and/or the Company’s system, (ii) disruption of generation by the Facility, (iii) disruption of service or stability on the Company’s system, and/or (iv) endangerment to human life or public safety; and/or. (c) any circumstance that requires action by the Company’s System Operator to comply with standing NERC regulations or standards, including without limitation actions to respond to, prevent, limit, or manage loss or damage to the Facility, loss or damage to the Company’s system, disruption of generation by the Facility, disruption of service on the Company’s system, an abnormal condition on the Company’s system, and/or endangerment to human life or safety. An Emergency Condition will be an excuse to QF’s performance only if such condition is not due to QF’s negligence, willful misconduct, and/or failure to perform as required under this Agreement.
- 2.5 “Execution Date” means the date on which the Company executes this Agreement.
- 2.6 “Facility” means all equipment used to produce electrical output and, for a cogeneration facility, used to produce useful thermal energy through the sequential use of energy.
- 2.7 “Facilities Study” means a written cost estimate of all the required materials and labor to complete the interconnection of the Facility with the Company’s electrical system, and an estimate of the date by which construction of the interconnection will be completed.
- 2.8 “Feasibility Study” means a review of the alternatives and operational requirements reasonably available to interconnect the Facility to the Company’s electric system and identification of a feasible interconnection alternative.
- 2.9 “Indemnified Party” has the meaning assigned to it in Section 12.1.
- 2.10 “Indemnifying Party” has the meaning assigned to it in Section 12.2
- 2.11 “Interconnection Costs” means the actual costs incurred by the Company under this Agreement and for the Company’s Interconnection Facilities, including, without limitation, the cost of equipment, engineering, communication, labor, and operations, maintenance, and administrative activities.
- 2.6 “Interconnection Costs Offset” means the estimated costs included in the Interconnection Costs that the Company would have incurred if it were not purchasing electric energy but instead itself generated or purchased from other

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL FIRST REVISED SHEET No. 9.701
CANCELS ORIGINAL SHEET No. 9.701

~~sources an equivalent amount of electric energy and provided normal service to the Facility as if it were a non-generating customers.~~

~~2.7 "Part(y)(ies)" means the Company or/and the QF.~~

~~2.8 "Point of Delivery" means the point(s) where electric energy delivered to the Company pursuant to this Agreement enters the Company's system.~~

~~2.9 "Point of Metering" means the point(s) where electric energy made available for delivery to the Company, subject to adjustment for losses, is measured.~~

~~2.10 "Point of Ownership" means the interconnection point(s) between the Facility and the interconnected utility.~~

~~2.11 "Power Purchase Agreement" means either the (i) Agreement for Purchase of As-Available Energy, (ii) the Standard Offer Contract for the Purchase of Firm Capacity and Energy from a Renewable Energy Producer or a Qualifying Facility less than 100 kW or (iii) a negotiated contract based upon (i) or (ii).~~

~~2.11 "Qualifying Facility" or "QF" means a facility that meets the requirements defined in FPSC Rule 25-17.080.~~

~~2.12 "Transmission Service Utility" means the operator(s) of the Transmission System(s) or any successor thereof or any other entity or entities authorized to transmit Energy on behalf of RE/QF from the Electrical Interconnection Point.~~

~~3.0 Submission of Plans and Development of Interconnection Schedules and Cost Estimates~~

~~3.1 No later than sixty (60) days after the Execution Date, the QF shall specify the date it desires the Company's Interconnection Facilities to be available for receipt of the electric energy and shall provide a preliminary written description of the Facility and, if applicable, the QF's anticipated arrangements with the Transmission Service Utility, including without limitation, a one-line diagram, anticipated Facility site data and any additional facilities anticipated to be needed by the Transmission Service Utility. Based upon the information provided, the Company shall develop preliminary written Interconnection Costs and scheduling estimates for the Company's Interconnection Facilities within sixty (60) days after the information is provided. The schedule developed hereunder will indicate when the QF's final electrical plans must be submitted to the Company pursuant to section 3.2 hereof.~~

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
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- 2.612 “Interconnection Costs Offset” means the estimated costs included in the Interconnection Costs that the Company would have incurred if it were not purchasing electric energy from the Facility but instead would have provided electrical service to the Facility as if it were a non-generating customers.
- 2.713 “Interconnection Request Application” means a form used to provide the Company with the information required to study an interconnection request.
- 2.14 “Part(y)(ies)” means the Company or/and the QF.
- 2.815 “Point of Delivery” means the point(s) on the Company’s side of the electrical system where electric energy generated exclusively by the Facility is delivered into the Company system pursuant to this Agreement.
- 2.916 “Point of Metering” means the point(s) where electric energy made available for delivery to the Company, subject to adjustment for losses to the Point of Delivery that are the sole responsibility of the QF, is measured.
- ~~2.11~~2.17 “Power Purchase Agreement” means either the (i) Agreement for Purchase of Available Energy, (ii) the Standard Offer Contract for the Purchase of Firm Capacity and Energy from a Renewable Energy Producer or a Qualifying Facility less than 100 kW or (iii) a negotiated contract based upon (i) or (ii).
- ~~2.11~~2.18 “Qualifying Facility” or “QF” means a facility that meets the requirements defined in FPSC Rule 25-17.080. For the purposes of this Agreement only, a Distributed Resource as defined in the Institute of Electrical and Electronics Engineers (“IEEE”) Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems, as they may be amended from time to time, will be deemed to be a QF, consistent with the Stipulation approved by the Florida Public Service Commission in Order No. PSC-06-0707-PAA-EL, issued August 18, 2006 in Docket No. 060410-EL.
- ~~2.12~~ “Transmission Service Utility” “QF Insurance” has the meaning assigned to it in Section 13.1.
- 2.20 “System Impact Study” means the operator(s) a preliminary written cost estimate of all the Transmission System(s) or any successor thereof or any other entity or entities authorized to transmit Energy on behalf of RE/QF from the Electrical Company’s Interconnection Point Facilities, including without limitation, required materials and labor to complete the interconnection and a preliminary estimate of the date by which construction of the interconnection will be completed.
- ~~3.2~~ The QF shall submit the Facility’s final electrical plans and all revisions to the information previously submitted under section 3.1 hereof to the Company no later than the date specified under section 3.1 hereof, unless such date is modified in the Company’s reasonable discretion. Based upon the information provided and within

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~~sixty (60) days after the information is provided, the Company shall update its written Interconnection Costs and schedule estimates, provide the estimated time period required for construction of the Company's Interconnection Facilities, and specify the date by which the Company must receive notice from the QF to initiate construction, which date shall, to the extent practical, be consistent with the QF's schedule for delivery of energy into the Company's system. The final electrical plans shall include the following information, unless all or a portion of such information is waived by the Company in its discretion:~~

- ~~a. Physical layout drawings, including dimensions;~~
- ~~b. All associated equipment specifications and characteristics including technical parameters, ratings, basic impulse levels, electrical main one line diagrams, schematic diagrams, system protections, frequency, voltage, current and interconnection distance;~~
- ~~c. Functional and logic diagrams, control and meter diagrams, conductor sizes and length, and any other relevant data which might be necessary to understand the Facility's proposed system and to be able to make a coordinated system;~~
- ~~d. Power requirements in watts and vars;~~
- ~~e. Expected radio noise, harmonic generation and telephone interference factor;~~
- ~~f. Synchronizing methods; and~~
- ~~g. Facility operating/instruction manuals;~~
- ~~h. If applicable, a detailed description of the facilities to be utilized by the Transmission Service Utility to deliver energy to the Point of Delivery.~~

~~3.3 Any subsequent change in the final electrical plans shall be submitted to the Company and it is understood and agreed that any such changes may affect the Company's schedules and Interconnection Costs as previously estimated.~~

~~3.4 The QF shall pay the actual costs incurred by the Company to develop all estimates pursuant to section 3.1 and 3.2 hereof and to evaluate any changes proposed by the QF under section 3.3 hereof, as such costs are billed pursuant to the Power Purchase Agreement. At the Company's option, advance payment for these cost estimates may be required, in which event the Company will issue an adjusted bill reflecting actual costs following completion of the cost estimates.~~

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3.0 Submission of Plans and Development of Interconnection Schedules and Cost Estimates

3.1 No later than sixty (60) days after the Execution Date, the QF shall specify the date it desires the Company's Interconnection Facilities to be available for receipt of the electric energy and shall complete an Interconnection Request Application. At such time, the QF shall deliver to Company the Facility's preliminary design, engineering, and operational specifications for purposes of interconnecting with Company's system. Based upon the information provided, the Company shall consider the reasonable alternatives available to interconnect the QF in a Feasibility Study. The Company and the QF shall meet and discuss interconnection alternatives and the QF's reasonable preference for interconnecting the Facility to the Company's electrical system. Once the QF has communicated a reasonable interconnection preference, the Company shall develop in a System Impact Study preliminary written Interconnection Costs and scheduling estimates for the Company's Interconnection Facilities within sixty (60) days after all information requested by the Company is provided by the QF. The schedule developed hereunder will indicate when the QF's final electrical plans must be submitted to the Company pursuant to section 3.2 hereof.

3.2 The QF shall submit the Facility's final design, engineering, and operational specifications and all revisions to the information previously submitted under section 3.1 hereof to the Company no later than the date specified pursuant to the last sentence of Section 3.1 hereof, unless such date is modified in the Company's sole discretion. Based upon the information provided and within sixty (60) days after the information is provided, the Company shall update its written Interconnection Costs and schedule estimates, provide the estimated time period required for construction of the Company's Interconnection Facilities, and specify the date by which the Company must receive notice from the QF to initiate construction, which date shall, to the extent practical, be consistent with the QF's schedule for delivery of energy into the Company's system in a Facilities Study. The final electrical plans shall include the following information, unless all or a portion of such information is waived by the Company in its discretion:

- a. Physical layout drawings, including dimensions;
- b. All associated equipment specifications and characteristics including technical parameters, ratings, basic impulse levels, electrical main one-line diagrams, schematic diagrams, system protections, frequency, voltage, current and interconnection distance;
- c. Functional and logic diagrams, control and meter diagrams, conductor sizes and length, and any other relevant data which might be necessary to understand the Facility's proposed system and to be able to make a coordinated system;
- d. Power requirements in watts and vars;

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~~3.5 The Parties agree that any cost or scheduling estimates provided by the Company hereunder shall be prepared in good faith but shall not be binding. The Company may modify such schedules as necessary to accommodate contingencies that affect the Company's ability to initiate or complete the Company's Interconnection Facilities and actual costs will be used as the basis for all final charges hereunder.~~

~~3.6 All studies required for interconnection and the construction of any interconnection facilities required shall be placed in the queue with any other interconnection requests to ensure that all interconnection requests to the Company's system promote current best practices, are just and reasonable, and are not discriminatory or preferential.~~

~~4.0 Payment Obligations for Interconnection Costs.~~

~~4.1 The Company shall have no obligation to initiate construction of the Company's Interconnection Facilities prior to a written notice from the QF agreeing to the Company's interconnection design requirements and notifying the Company to initiate its activities to construct the Company's Interconnection Facilities; provided, however, that such notice shall be received not later than the date specified by the Company under section 3.2 hereof. The QF shall be liable for and agrees to pay all Interconnection Costs incurred by the Company on or after the specified date for initiation of construction.~~

~~4.2 The QF agrees to pay all of the Company's actual Interconnection Costs as such costs are incurred and billed in accordance with the Power Purchase Agreement. Such amounts shall be billed pursuant to section 4.2.1 if the QF elects the payment option permitted by FPSC Rule 25-17.087(3). Otherwise the QF shall be billed pursuant to section 4.2.2.~~

~~4.2.1 Upon a showing of credit worthiness, the QF shall have the option of making monthly installment payments for Interconnection Costs over a period no longer than thirty six (36) months. The period selected is _____ months. Principal payments will be based on the estimated Interconnection Costs less the Interconnection Costs Offset, divided by the repayment period in months to determine the monthly principal payment. Payments will be invoiced in the first month following first incurrence of Interconnection Costs by the Company. Invoices to the QF will include principal payments plus interest on the unpaid balance, if any, calculated at a rate equal to the thirty (30) day highest grade commercial paper rate as published in the Wall Street Journal on the first business day of each month. The final payment or payments will be adjusted to cause the sum of principal payments to equal the actual Interconnection Costs.~~

~~4.2.2 When Interconnection Costs are incurred by the Company, such costs will be billed to the QF to the extent that they exceed the Interconnection Costs Offset.~~

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- e. Expected radio-noise, harmonic generation and telephone interference factor;
- f. Synchronizing methods;
- g. Facility operating/instruction manuals; and
- h. The maximum amount of energy anticipated to be delivered to the Company.

The final design specification documents delivered by the QF shall be labeled as "FINAL", and shall be signed, sealed, and dated by a licensed Florida Professional Engineer for purposes of establishing the final design submitted by the QF based on which Company will determine impacts to its system and construct interconnection facilities for the QF to interconnect with the system.

- 3.3 Any subsequent change in the final electrical plans shall be submitted to the Company and the QF understands and agrees that any such changes could affect the Company's schedules and Interconnection Costs as previously estimated. The QF understands that any changes in system design after the "FINAL" design is submitted shall be deemed as material or significant design changes by the QF and may result in Company terminating this Agreement and re-starting the interconnection process, as may be determined by the Company in its sole discretion. The QF shall be responsible for all costs incurred by Company as a result of any modifications to the "FINAL" design.
- 3.4 Without limiting the QF's responsibility to pay for all costs under this Agreement, the QF understands and agrees that the QF shall pay the actual costs incurred by the Company to develop all estimates pursuant to section 3.1 and 3.2 hereof and to evaluate any changes proposed by the QF as a result of the final design specifications. At the Company's option, advance payment for these cost estimates may be required, in which event the Company will issue an adjusted bill reflecting actual costs following completion of the cost estimates.
- 3.5 The Parties agree that any cost or scheduling estimates provided by the Company hereunder shall be prepared in good faith but shall not be binding. The Company may modify such schedules as necessary to accommodate contingencies that affect the Company's ability to initiate or complete the Company's Interconnection Facilities and actual costs will be used as the basis for all final charges hereunder.
- 3.6 All studies required for interconnection and the construction of any interconnection facilities required shall be placed in the queue in a non-discriminatory and non-preferential manner relative to any other interconnection requests so that Company can process all interconnection requests to the Company's system in accordance with the Company's current practices and operational procedures.
- ~~4.3 If the QF notifies the Company in writing to interrupt or cease interconnection work at any time and for any reason, the QF shall nonetheless be obligated to pay the Company for all costs incurred in connection with the Company's Interconnection Facilities~~

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~~through the date of such notification and for all additional costs for which the Company is responsible pursuant to binding contracts with third parties.~~

~~5.0 Payment Obligation for Operation, Maintenance and Repair of the Company's Intereconnection Facilities~~

~~The Qualifying Facility shall be billed monthly for the costs associated with the operation, maintenance, and repair of the interconnection. These include (a) the Company's inspections of the interconnection and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Facility if no sales to the Company were involved.~~

~~The Qualifying Facility shall pay a monthly charge equal to 0.50% of the Intereconnection Costs less the Intereconnection Costs Offset.~~

~~6.0 Schematic Diagram~~

~~Exhibit B-1, attached hereto and made a part hereof, is a schematic diagram showing the major circuit components connecting the Facility and the Company's [substation] and showing the Point of Delivery and the Point of Metering and/or Point of Ownership, if different. All switch number designations initially left blank on Exhibit B-1 will be inserted by the Company on or before the date on which the Facility first operates in parallel with the Company's system.~~

~~7.0 Operating Standards~~

~~7.1 The QF and the Company will independently provide for the safe operation of their respective facilities, including periods during which the other Party's facilities are unexpectedly energized or de-energized.~~

~~7.2 The QF shall reduce, curtail, or interrupt electrical generation or take other appropriate action for so long as it is reasonably necessary, which in the judgment of the QF or the Company may be necessary to operate and maintain a part of either Party's system, to address, if applicable, an emergency on either Party's system.~~

~~7.3 The deliveries from the QF shall not exceed the amount studied and approved by the Company's pursuant to the studies performed in Section 3 of this Agreement.~~

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4.0 Payment Obligations for Interconnection Costs.

- 4.1 The Company shall have no obligation to initiate construction of the Company's Interconnection Facilities prior to a written notice from the QF agreeing to the Company's interconnection design requirements and notifying the Company to initiate its activities to construct the Company's Interconnection Facilities; provided, however, that such notice shall be received not later than the date specified by the Company under Section 3.2 hereof. The QF shall be liable for and agrees to pay all Interconnection Costs incurred by the Company.
- 4.2 The QF agrees to pay all of the Company's actual Interconnection Costs as such costs are incurred and billed in accordance with the Power Purchase Agreement, if applicable. Such amounts shall be billed pursuant to section 4.2.1 if the QF elects the payment option permitted by FPSC Rule 25-17.087(3). Otherwise the QF shall be billed pursuant to section 4.2.2. If the QF does not have a Power Purchase Agreement for the Facility, then the QF agrees to pay the amounts billed by Company within 30 days after Company notifies the QF that such interconnection work has been completed.
- 4.2.1 Upon a showing of credit worthiness, the QF shall have the option of making monthly installment payments for Interconnection Costs over a period no longer than thirty six (36) months. The period selected is _____ months. Principal payments will be based on the estimated Interconnection Costs less the Interconnection Costs Offset, divided by the repayment period in months to determine the monthly principal payment. Payments will be invoiced in the first month following first incurrence of Interconnection Costs by the Company. Invoices to the QF will include principal payments plus interest on the unpaid balance, if any, calculated at a rate equal to the thirty (30) day highest grade commercial paper rate as published in the Wall Street Journal on the first business day of each month. The final payment or payments will be adjusted to cause the sum of principal payments to equal the actual Interconnection Costs.
- 4.2.2 When Interconnection Costs are incurred by the Company, such costs will be billed to the QF to the extent that they exceed the Interconnection Costs Offset. The QF agrees to provide, at least 15 calendar days before the initiation of interconnection field work, cash or a letter of credit as adequate assurances, in a form acceptable to Company in its sole discretion, to cover the estimated Interconnection Costs.
- 4.3 If the QF notifies the Company in writing to interrupt or cease interconnection work at any time and for any reason, the QF shall nonetheless be obligated to pay the Company for all costs incurred in connection with the Company's Interconnection Facilities through the date of such notification and for all additional costs for which the Company is responsible pursuant to binding contracts with third parties.
- 7.4 As may be provided in the Power Purchase Agreement, the QF shall not operate the Facility's electric generation equipment in parallel with the Company's system without

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~~prior written consent of the Company. Such consent shall not be given until the QF has satisfied all criteria under the Power Purchase Agreement and has:~~

- ~~(i) submitted to and received consent from the Company of its as-built electrical specifications;~~
- ~~(ii) demonstrated to the Company's satisfaction that the Facility is in compliance with the insurance requirements of the Power Purchase Agreement; and~~
- ~~(iii) demonstrated to the Company's satisfaction that the Facility is in compliance with all regulations, rules, orders, or decisions of any governmental or regulatory authority having jurisdiction over the Facility's generating equipment or the operation of such equipment.~~

~~7.5 Any proposed modifications to the electrical equipment of the Facility will be submitted to the Company for approval. It is further understood that the scope of some modifications may require new interconnection studies that will result in additional interconnections costs along with other costs detailed in Section 5 of the Agreement. After any approved Facility modifications are completed, the QF shall not resume parallel operation with the Company's system until the QF has demonstrated that it is in compliance with all the requirements of section 8.2 hereof.~~

~~7.6 The QF shall be responsible for coordination and synchronization of the Facility's equipment with the Company's electrical system, and assumes all responsibility for damage that may occur from improper coordination or synchronization of the generator with the utility's system.~~

~~7.7 The Company shall have the right to open and lock, with a Company padlock, manual disconnect switch numbers(s) _____ and isolate the Facility's generation system without prior notice to the QF. To the extent practicable, however, prior notice shall be given. Any of the following conditions shall be cause for disconnection:~~

- ~~1. Company system emergencies and/or maintenance repair and construction requirements;~~
- ~~2. hazardous conditions existing on the Facility's generating or protective equipment as determined by the Company;~~
- ~~3. adverse effects of the Facility's generation to the Company's other electric consumers and/or system as determined by the Company;~~
- ~~4. failure of the QF to maintain any required insurance; or~~

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5.0 Payment Obligation for Operation, Maintenance and Repair of the Company's Interconnection Facilities

The QF shall be billed monthly for the costs associated with the operation, maintenance, and repair of the interconnection. These include (a) the Company's inspections of the interconnection and (b) maintenance of any equipment beyond that which would be required to provide normal electric service to the Qualifying Facility if no sales to the Company were involved.

The QF shall pay a monthly charge equal to 0.50% of the Interconnection Costs less the Interconnection Costs Offset.

6.0 Schematic Diagram

Exhibit B-1, attached hereto and made a part hereof, is a schematic diagram showing the major circuit components connecting the Facility and the Company's [substation] and showing the Point of Delivery and the Point of Metering and/or Point of Ownership, if different. All switch number designations initially left blank on Exhibit B-1 will be inserted by the Company on or before the date on which the Facility first operates in parallel with the Company's system.

7.0 Operating Standards

7.1 The QF and the Company will independently provide for the safe operation of their respective facilities, including periods during which the other Party's facilities are unexpectedly energized or de-energized.

7.2 The QF shall reduce, curtail, or interrupt electrical generation or take other appropriate action for so long as it is reasonably necessary, which in the judgment of the QF or the Company may be necessary to operate and maintain a part of either Party's system, to address, if applicable, an Emergency Condition on either Party's system. The QF shall also reduce, curtail, or interrupt electrical generation during the situations defined in Rule 25-17.086, F.A.C.

7.3 The operation and net energy deliveries to the Company from the QF shall not exceed the amount studied and approved by the Company's pursuant to the studies performed under this Agreement.

~~5. failure of the QF to comply with any existing or future regulations, rules, orders or decisions of any governmental or regulatory authority having jurisdiction over the Facility's electric generating equipment or the operation of such equipment.~~

~~7.8 The Facility's electric generation equipment shall not be operated in parallel with the Company's system when auxiliary power is being provided from a source other than the Facility's electric generation equipment.~~

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~~7.9 Neither Party shall operate switching devices owned by the other Party, except that the Company may open the manual disconnect switch number(s) _____ owned by the QF pursuant to section 7.7 hereof.~~

~~7.10 Should one Party desire to change the operating position of a switching device owned by the other Party, the following procedures shall be followed:~~

- ~~(i) The Party requesting the switching change shall orally agree with an authorized representative of the other Party regarding which switch or switches are to be operated, the requested position of each switching device, and when each switch is to be operated.~~
- ~~(ii) The Party performing the requested switching shall notify the requesting Party when the requested switching change has been completed.~~
- ~~(iii) Neither Party shall rely solely on the other party's switching device to provide electrical isolation necessary for personnel safety. Each Party will perform work on its side of the Point of Ownership as if its facilities are energized or test for voltage and install grounds prior to beginning work.~~
- ~~(iv) Each Party shall be responsible for returning its facilities to approved operating conditions, including removal of grounds, prior to the Company authorizing the restoration of parallel operation.~~
- ~~(v) The Company shall install one or more red tags similar to the red tag shown in Exhibit B 2 attached hereto and made a part hereof, on all open switches. Only Company personnel on the Company's switching and tagging list shall remove and/or close any switch bearing a Company red tag under any circumstances.~~

~~7.11 Should any essential protective equipment fail or be removed from service for maintenance or construction requirements, the Facility's electric generation equipment shall be disconnected from the Company's system. To accomplish this disconnection, the QF shall either (i) open the generator breaker number(s) _____; or (ii) open the manual disconnect switch number(s) _____.~~

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7.4 The QF shall not operate the Facility's electric generation equipment in parallel with the Company's system without prior written consent of the Company. Such consent shall not be given until the QF has satisfied all criteria under the Power Purchase Agreement, if applicable and has:

- (i) submitted to and received consent from the Company of its as-built electrical specifications;
- (ii) demonstrated to the Company's satisfaction that the Facility is in compliance with the insurance requirements of the Power Purchase Agreement, if applicable; and
- (iii) demonstrated to the Company's satisfaction that the Facility is in compliance with all regulations, rules, orders, or decisions of any governmental or regulatory authority having jurisdiction over the Facility's generating equipment or the operation of such equipment.

7.5 Any proposed modifications to the electrical equipment of the Facility will be submitted to the Company for approval. It is further understood that the scope of some modifications may require new interconnection studies that will result in additional interconnections costs along with other costs detailed in Section 5 of the Agreement, and such costs shall be the sole responsibility of the QF. After any approved Facility modifications are completed, the QF shall not resume parallel operation with the Company's system until the QF has demonstrated that it is in compliance with all the requirements of section 8.2 hereof.

7.6 The QF shall be responsible for coordination and synchronization of the Facility's equipment with the Company's electrical system, and assumes all responsibility for damage that may occur from improper coordination or synchronization of the generator with the utility's system.

7.7 The Company shall have the right to open and lock, with a Company padlock, manual disconnect switch numbers(s) and isolate the Facility's generation system without prior notice to the QF. To the extent practicable, however, prior notice shall be given. Any of the following conditions shall be cause for disconnection:

- 1. Emergency Conditions and/or maintenance repair and construction requirements;
- 2. hazardous conditions existing on the Facility's generating or protective equipment as determined by the Company;
- 3. adverse effects of the Facility's generation to the Company's other electric consumers and/or system as determined by the Company;
- 4. failure of the QF to maintain any required insurance; or

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~~7.11.1 If the QF elects option (i), the breaker assembly shall be opened and drawn out by QF personnel. As promptly as practicable, Company personnel shall install a Company padlock and a red tag on the breaker enclosure door.~~

~~7.11.2 If the QF elects option (ii), the switch shall be opened by QF personnel or by Company personnel and, as promptly as practicable, Company personnel will install a Company padlock and a red tag.~~

~~8.0 Inspection and Testing~~

~~8.1 The inspection and testing of all electrical relays governing the operation of the generator's circuit breaker shall be performed in accordance with manufacturer's recommendations, but in no case less than once every 12 months. This inspection and testing shall include, but not be limited to, the following:~~

~~(i) electrical checks on all relays and verification of settings electrically;~~

~~(ii) cleaning of all contacts;~~

~~(iii) complete testing of tripping mechanisms for correct operating sequence and proper time intervals; and~~

~~(iv) visual inspection of the general condition of the relays.~~

~~8.2 In the event that any essential relay or protective equipment is found to be inoperative or in need of repair, the QF shall notify the Company of the problem and cease parallel operation of the generator until repairs or replacements have been made. The QF shall be responsible for maintaining records of all inspections and repairs and shall make said records available to the Company upon request.~~

~~8.3 The Company shall have the right to operate and test any of the Facility's protective equipment to assure accuracy and proper operation. This testing shall not relieve the QF of the responsibility to assure proper operation of its equipment and to perform routine maintenance and testing.~~

~~9.0 Notification~~

~~9.1 Communications made for emergency or operational reasons may be made to the following persons and shall thereafter be confirmed promptly in writing:~~

~~To The Company: System Dispatcher on Duty~~

~~Title: System Dispatcher~~

~~Telephone: (727)384-7211~~

~~Telecopier: (727)384-7865~~

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5. failure of the QF to comply with any existing or future regulations, rules, orders or decisions of any governmental or regulatory authority having jurisdiction over the Facility's electric generating equipment or the operation of such equipment.

7.8 The Facility's electric generation equipment shall not be operated in parallel with the Company's system when auxiliary power is being provided from a source other than the Facility's electric generation equipment.

7.9 Neither Party shall operate switching devices owned by the other Party, except that the Company may open the manual disconnect switch number(s) _____ owned by the QF pursuant to section 7.7 hereof.

7.10 Should one Party desire to change the operating position of a switching device owned by the other Party, the following procedures shall be followed:

(i) The Party requesting the switching change shall orally agree with an authorized representative of the other Party regarding which switch or switches are to be operated, the requested position of each switching device, and when each switch is to be operated.

(ii) The Party performing the requested switching shall notify the requesting Party when the requested switching change has been completed.

(iii) Neither Party shall rely solely on the other party's switching device to provide electrical isolation necessary for personnel safety. Each Party will perform work on its side of the Point of Ownership as if its facilities are energized or test for voltage and install grounds prior to beginning work.

(iv) Each Party shall be responsible for returning its facilities to approved operating conditions, including removal of grounds, prior to the Company authorizing the restoration of parallel operation.

(v) The Company shall install one or more red tags on all open switches. Only Company personnel on the Company's switching and tagging list shall remove and/or close any switch bearing a Company red tag under any circumstances.

7.11 Should any essential protective equipment fail or be removed from service for maintenance or construction requirements, the Facility's electric generation equipment shall be disconnected from the Company's system. To accomplish this disconnection, the QF shall either (i) open the generator breaker number(s) _____; or (ii) open the manual disconnect switch number(s) _____.

To The QF: Name: _____
Title: _____
Telephone: _____
Telecopier: _____

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~~9.2 Each Party shall provide as much notification as practicable to the other Party regarding planned outages of equipment that may affect the other Party's operation.~~

~~10.1 Standards~~

~~Interconnection with, and delivery into, the Company's system must be accomplished in accordance with the provisions of FPSC Rule 25-17.087. Additionally, as provided in FPSC Order No. PSC-06-0707 PAA-EL, issued August 18, 2006, in Docket No. 060410-EL, for a QF that is a Distributed Resource, the QF's interconnection with the Company's system must be accomplished in accordance with the provisions of the IEEE Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems that is in effect at the time of construction.~~

~~10.1 The following minimum guidelines shall also be met:~~

~~a. The governor control on the prime mover shall be capable of maintaining the generator output frequency within limits for loads from no load up to rated output. The limits for frequency shall be 60 hertz (cycles per second), plus or minus an instantaneous variation of less than 1%.~~

~~b. The regulator control shall be capable of maintaining the generator output voltage within limits from no load up to rated output. The limits for voltage shall be the nominal operating voltage, plus or minus 5%.~~

~~e. The output sine wave distortion shall be deemed acceptable with it does not have a higher content (root mean squared) of harmonics than the Company's normal harmonic content at the interconnection point.~~

~~d. The QF's generation shall be designed, operated, and controlled to provide reactive power requirements from 0.95 lagging to 0.95 leading power factor at the point of interconnection with the Company. Induction generators shall have static capacitors that provide at least 95% of the magnetizing current requirements of the induction generator field. (Capacitors shall not be so large as to permit self-excitation of the QF's generator field.~~

~~e. Direct current (DC) generators may be operated in parallel with the Company's system through a synchronous inverter. The inverter must meet all the criteria in this Agreement.~~

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
FIRST SECOND REVISED SHEET No. 9.709
CANCELS ORIGINAL FIRST REVISED SHEET No. 9.709

7.11.1 If the QF elects option (i), the breaker assembly shall be opened and drawn out by QF personnel. As promptly as practicable, Company personnel shall install a Company padlock and a red tag on the breaker enclosure door.

7.11.2 If the QF elects option (ii), the switch shall be opened by QF personnel or by Company personnel and, as promptly as practicable, Company personnel will install a Company padlock and a red tag.

8.0 Inspection and Testing

8.1 The inspection and testing of all electrical relays governing the operation of the generator's circuit breaker shall be performed in accordance with manufacturer's recommendations, but in no case less than once every 12 months. This inspection and testing shall include, but not be limited to, the following:

- (i) electrical checks on all relays and verification of settings electrically;
- (ii) cleaning of all contacts;
- (iii) complete testing of tripping mechanisms for correct operating sequence and proper time intervals; and
- (iv) visual inspection of the general condition of the relays.

8.2 In the event that any essential relay or protective equipment is found to be inoperative or in need of repair, the QF shall notify the Company of the problem and cease parallel operation of the generator until repairs or replacements have been made. The QF shall be responsible for maintaining records of all inspections and repairs and shall make said records available to the Company upon request.

8.3 The Company shall have the right to operate and test any of the Facility's protective equipment to assure accuracy and proper operation. This testing shall not relieve the QF of the responsibility to assure proper operation of its equipment and to perform routine maintenance and testing.

9.0 Notification

9.1 Communications made for emergency or operational reasons may be made to the following persons and shall thereafter be confirmed promptly in writing:

To The Company: System Dispatcher on Duty
Title: System Dispatcher
Telephone: (727)384-7211
Telecopier: (727)384-7865

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
FIRST SECOND REVISED SHEET No. 9.709
CANCELS ORIGINAL FIRST REVISED SHEET No. 9.709

~~EXHIBIT B-1~~

~~Exhibit B-1 will be unique for each Facility
and must be complete prior to parallel
operation with the Company~~

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL FIRST REVISED SHEET No. 9.710
CANCELS ORIGINAL SHEET No. 9.710

To The QF: Name: _____
Title: _____
Telephone: _____
Telecopier: _____

9.2 Each Party shall provide as much notification as practicable to the other Party regarding planned outages of equipment that may affect the other Party's operation.

10.0 Standards

Interconnection with, and delivery into, the Company's system must be accomplished in accordance with the provisions of FPSC Rule 25-17.087. Additionally, as provided in FPSC Order No. PSC-06-0707-PAA-EI, issued August 18, 2006, in Docket No. 060410-EI for a QF that is a Distributed Resource, the QF's interconnection with the Company's system must be accomplished in accordance with the provisions of the IEEE Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems that is in effect at the time of construction.

10.1 The following minimum guidelines shall also be met:

- a. The governor control on the prime mover shall be capable of maintaining the generator output frequency within limits for loads from no-load up to rated output. The limits for frequency shall be 60 hertz (cycles per second), plus or minus an instantaneous variation of less than 1%.
- b. The regulator control shall be capable of maintaining the generator output voltage within limits from no-load up to rated output. The limits for voltage shall be the nominal operating voltage, plus or minus 5%.
- c. The output sine wave distortion shall be deemed acceptable when it does not have a higher content (root mean squared) of harmonics than the Company's normal harmonic content at the interconnection point.
- d. The QF's generating equipment shall be designed, operated, and controlled to provide reactive power requirements from 0.95 lagging to 0.95 leading power factor at the point of interconnection with the Company. Induction generators shall have static capacitors that provide at least 95% of the magnetizing current requirements of the induction generator field. Capacitors shall not be so large as to permit self-excitation of the QF's generator field.
- e. Direct current (DC) generators may be operated in parallel with the Company's system through a synchronous inverter. The inverter must meet all the criteria in this Agreement.

EXHIBIT B-2

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
~~ORIGINAL FIRST REVISED SHEET No. 9.710~~
CANCELS ORIGINAL SHEET No. 9.710

~~A switch or switch point (i.e., elbow, open jumpers, etc.) with a red tag attached is open and shall not be closed under any circumstances. After a switch has been red tagged, that switch cannot be closed until the red tag is removed. Red tags can only be removed when authorized by a specific written order.~~

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL SHEET No. 9.711

11.0 QF Standing and Qualification

The QF is a _____ (corporation, partnership, or other, as applicable) duly organized and validly existing in good standing under the laws of _____ and has all necessary power and authority to carry on its business as presently conducted to own or hold under lease its properties and to enter into and perform its obligations under this Agreement and all other related documents and agreements to which it is or shall be a Party. QF is duly qualified or licensed to do business in the State of Florida and in all other jurisdictions wherein the nature of its business and operations or the character of the properties owned or leased by it makes such qualification or licensing necessary and where the failure to be so qualified or licensed would impair its ability to perform its obligations under this Agreement or would result in a liability to Company or would have any adverse effect on Company.

12. Insurance

12.1 The QF shall procure or cause to be procured and shall maintain throughout the entire Term of this Agreement, a policy or policies of liability insurance issued by an insurer acceptable in the state of Florida on a standard "Insurance Services Office" commercial general liability and/or excess liability form or equivalent and Workers' Compensation in accordance with the statutory requirements of the state of Florida (such policy or policies, collectively, the "QF Insurance"). A certificate of insurance shall be delivered to the Company at least fifteen (15) calendar days prior to the start of any interconnection work. At a minimum, the QF Insurance shall contain (a) an endorsement providing coverage, including products liability/completed operations coverage for the term of this Agreement, and (b) premises and operations liability, (c) a broad form contractual liability endorsement covering liabilities (i) which might arise under, or in the performance or nonperformance of, this Agreement or (ii) caused by operation of the Facility or any of the QF's equipment Without limiting the foregoing, the QF Insurance must be reasonably acceptable to the Company. Any premium assessment or deductible shall be for the account of the QF and not the Company.

12.2 The QF Insurance for liability shall have a minimum limit of one million dollars (\$1,000,000.00) per occurrence for bodily injury (including death) or property damage. This liability limit can be met by any combination of commercial general and excess liability insurance policies.

12.3 To the extent that the QF Insurance is on a "claims made" basis, the retroactive date of the policy(ies) shall be the Effective Date of this Agreement or an earlier date. Furthermore, to the extent the QF Insurance is on a "claims made" basis, the QF's duty to provide insurance coverage shall survive the termination of this Agreement until the expiration of the maximum statutory period of limitations in the State of Florida for actions based in contract or in tort. To the extent the QF Insurance is on an "occurrence" basis, such insurance shall be maintained in effect at all times by the QF during the term of this Agreement.

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL SHEET No. 9.712

12.4 The QF shall provide the Company with a copy of any material communication or notice related to the QF Insurance within ten (10) Business Days of the QF's receipt or issuance thereof.

12.5 The Company shall be designated as an additional named insured under the QF Insurance (except Workers' Compensation). The QF Insurance shall be primary to any coverage maintained by the Company and provide, where permitted by law, waiver of any rights of subrogation against the Company. Any deductibles or retentions shall be the sole responsibility of QF. QF's compliance with these provisions and the limits of insurance specified herein shall not constitute a limitation of QF's liability or otherwise affect QF's indemnification obligations pursuant to this Agreement. Any failure to comply with all of these provisions shall not be deemed a waiver of any rights of the Company under this Agreement with respect to any insurance coverage required hereunder. The Company may request the QF to provide a copy of any or all of its required insurance policies, including endorsements in which the Company is included as an additional insured for any claims filed relative to this Agreement.

13. Event of Default

13.1 Upon a Default, the non-defaulting Party shall give written notice of such Default to the defaulting Party. Except as provided in Section 13.2, the defaulting Party shall have five (5) Business Days from receipt of the Default notice within which to cure such Default.

13.2 If a Default is not cured as provided in this Section, the non-defaulting Party shall have the right to terminate this Agreement by written notice at any time until cure occurs, and be relieved of any further obligation hereunder and, whether or not that Party terminates this Agreement, to recover from the defaulting Party all amounts due hereunder, plus all other damages and remedies to which it is entitled at law or in equity. The provisions of this section will survive termination of this Agreement.

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL SHEET No. 9.713

14. Termination

This Agreement shall terminate upon any of the following events:

- (a) at the time when the nature of the QF's service changes in such a way as to alter the manner in which the QF delivers power to the Company; or
- (b) pursuant to the procedure set forth in Section 13.2; or
- (c) as set forth in Section 3.3; or
- (d) termination of the Power Purchase Agreement; or
- (e) upon 30 days' notice by the QF to the Company.

15. Assignment

Any assignment by QF of this Agreement and the rights and obligations hereunder shall be made only with the written consent of the Company, which consent shall not be unreasonably withheld and shall be subject to credit, payment, tax, and performance assurances.

16. Governing Law and Jurisdiction.

This Agreement and the rights and duties hereunder shall be governed by and construed, enforced and performed in accordance with the Laws of the State of Florida, without regard to principles of conflicts of law.

17. Mutual Representations

QF and Company each hereby represents and warrants to the other the following: (i) each has the capacity, authority, and power to execute, deliver, and perform under this Agreement; (ii) this Agreement constitutes legal, valid, and binding obligations enforceable against it; (iii) each person who executes this Agreement on behalf of each party has full and complete authority to execute and bind such party to this Agreement as an authorized representative of such party; (iv) each is acting on its own behalf and has made its own independent decision to bind itself under this Agreement; and, (v) each has completely read, fully understands, and voluntarily accepts every provision of this Agreement.

18. Entire Agreement

This Agreement constitutes the entire agreement and arrangement between the QF and Company relating to the subject matter herein. This Agreement shall not be binding and effective unless duly executed by an authorized officer of QF and delivered by QF to Company, and upon receipt of such duly executed document is executed by Company and delivered by Company to QF.

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL SHEET No. 9.714

EXHIBIT B-1

Exhibit B-1 will be unique for each Facility
and must be complete prior to parallel
operation with the Company

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:



SECTION No. IX
ORIGINAL SHEET No. 9.715

IN WITNESS WHEREOF, the QF has executed this Agreement on the date set forth below.

OF

Signature

Print Name

Title

Date

IN WITNESS WHEREOF, the Company has acknowledged receipt of this executed Agreement.

DUKE ENERGY FLORIDA, LLC.

Signature

Print Name

Title

Date

ISSUED BY: Javier Portuondo, Director, Rates & Regulatory Strategy - FL
EFFECTIVE:

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Wooten) *PaE*
Division of Accounting and Finance (Brown, Cicchetti, Wilson) *ALM*
Division of Economics (Higgins, McNulty) *WFM*
Office of the General Counsel (Corbari) *KW*

RE: Docket No. 160158-EI – Petition for approval of energy purchase agreement between Gulf Power Company and Morgan Stanley Capital Group Incorporated.

AGENDA: 10/11/16 – 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 February 22, 2017.

SPECIAL INSTRUCTIONS: None

Case Background

On June 27, 2016, Gulf Power Company (Gulf or Company) filed a petition requesting approval for cost recovery of a negotiated Energy Purchase Agreement (Agreement) with Morgan Stanley Capital Group Inc.¹ (Morgan Stanley). The 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. The petition is similar to the previous Gulf

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

Docket No. 160158-EI
Date: September 29, 2016

Kingfisher Wind Farm Agreement (“Kingfisher I”) that was approved by the Commission in 2015.²

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 final Commission decision must be rendered by February 22, 2017.

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

²Order No. PSC-15-0197-PAA-EI issued May 13, 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.*

Discussion of Issues

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 of \$21 million and will encourage the development of renewable energy. Therefore, staff recommends that the Commission approve Gulf's petition. (Wooten, McNulty)

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. Morgan Stanley's energy delivery commitment is shaped to match the projected hourly and monthly output of a 94 megawatt portion of a wind electric generation facility known as the Kingfisher Wind Farm in Oklahoma.³ On an annual basis, Morgan Stanley's energy delivery commitment totals 356,843 MWh, beginning in 2016. On June 10, 2016, 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. Staff believes that Rule 25-17.0825(6), Florida Administrative Code (F.A.C.), addresses non-firm purchased power agreements, such as 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

Staff reviewed Gulf's fuel price forecasts, developed in 2015, as well as the process and methodology by which the forecasts were developed. In response to a staff data request, the Company described the methodology it employed in developing its natural gas and coal price forecasts used in this docket, a methodology which is consistent with that used by the Company to develop its 2016 Ten-Year Site Plan. Gulf's natural gas and coal price forecasts were lower in the budgets used to prepare the analysis in the instant proceeding than those used to prepare the 2015 Ten Year Site Plan. Staff has reviewed Gulf's natural gas and coal price forecasts and believes they are reasonable for evaluating the Agreement.

After evaluating the Agreement and the information provided by Gulf, staff has concluded that the economic evaluation completed by the company demonstrates reasonably that the Agreement is cost-effective. Under the base fuel forecast, customers are anticipated to receive savings of \$21 million in net present value (NPV) and an average customer should realize savings within the first year of the Agreement.

By fixing energy payment rates, the rates are not allowed to float with changes to the avoided unit's fuel costs. This shifts all the risk of fuel price fluctuations to Gulf's ratepayers. Based on the fuel forecasts provided, the low fuel price scenario results in a potential NPV loss of approximately \$6 million. In contrast, the high fuel price scenario resulted in a savings of around \$50 million. Regardless, Gulf would remain obligated to pay the contracted rate and may seek to recover the costs from the ratepayers through the fuel cost recovery clause. Because of the fixed

³ The Kingfisher Wind Farm is expected to have a full nameplate capacity of approximately 298 MW.

price nature of the Agreement, there are potential risks associated with fuel price variability, but staff believes that the potential benefits from the renewable attributes increases the benefit to the ratepayers that the Agreement will provide.

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. In this manner, the Agreement is similar to the prior Kingfisher I agreement that was linked to 178 MW of the Kingfisher facilities wind generation. The addition of the Agreement in this petition will secure the renewable attributes associated with the rest of the wind generating capability of the Kingfisher facility.

Renewable Energy Credits

Gulf is anticipating receiving approximately 360,000 RECs annually from the Agreement over its lifetime. The Company states that RECs are currently selling for \$0.33 per credit on the voluntary market. 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.

Security Evaluation

The Agreement includes several provisions to protect Gulf's ratepayers and ensure the adequacy and reliability of electric service. These include protections for covering damages to Gulf if Morgan Stanley fails to deliver energy, the ability for Gulf to curtail or cease energy deliveries for emergency situations and requiring Morgan Stanley to utilize firm transmission for all deliveries with limited exceptions. 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 adversely impacted by the energy delivered 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

Gulf has reasonably demonstrated that the Agreement will likely produce savings of \$21 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. (Corbari)

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 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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis, King)
Division of Accounting and Finance (Fletcher, Mouring, Smith II)
Division of Economics (Bruce)
Office of the General Counsel (Murphy)

Handwritten notes:
CKL REH M TS
BGF ALM
SM

RE: Docket No. 150010-WS – Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

AGENDA: 10/11/16 – Proposed Agency Action – Except for Issue Nos. 11, 17, and 18 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: Waived (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Aquarina Utilities, Inc., (Aquarina or Utility) is a Class B utility providing service to approximately 296 water and 311 wastewater customers in Brevard County. Aquarina also provides non-potable water for irrigation to approximately 107 customers. The Utility began providing service in 1984 when it was known as Aquarina Developments, Inc. In 1989, the Commission granted the Utility water and wastewater certificate numbers 517-W and 450-S, respectively. Water and wastewater rates were last established for the Utility in 2003, when it was known as Service Management Systems, Inc.¹ The Utility was transferred to Aquarina in 2012.²

On January 2, 2015, Aquarina filed an application for a Staff Assisted Rate Case (SARC). Staff selected the test year ending December 31, 2014, for the instant case. According to Aquarina's 2014 Annual Report, its total operating revenues for water and wastewater were \$269,405 and \$161,736, respectively. The Utility reported a net loss of \$45,050 for the water service and net income of \$5,320 for the wastewater service.³ On July 14, 2015, Aquarina submitted additional pro forma request for consideration in which staff received the final quotes on October 19, 2015. On January 19, 2016, the Utility requested consideration of additional well expenses.⁴

A customer meeting was held on March 10, 2016, at the Aquarina Community Center to receive customer questions and comments concerning the Utility's rate case and quality of service. The Commission has jurisdiction in this case pursuant to Section 367.0814, Florida Statutes, (F.S.).

¹Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

²Order No. PSC-12-0614-CO-WS, issued November 16, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 517-W and 450-S of Service Management Systems, Inc. to Aquarina Utilities, Inc., in Brevard County.*

³Aquarina Utilities, Inc. 2014 Annual Report filed March 13, 2015, with the Commission.

<http://www.floridapsc.com/library/financials/WS949-DOCS/ANNUAL-REPORTS/WS949-14-AR.PDF>

⁴ See Document 00369-16

Discussion of Issues

Issue 1: Should the quality of service provided by Aquarina be considered satisfactory?

Recommendation: Yes. The overall quality of service provided by Aquarina should be considered satisfactory. (Lewis)

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 the utility. This is derived from an evaluation of three separate components of the Utility's operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) 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 Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. Additionally, Section 367.0812(1)(c), F.S., requires the Commission to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP.

Quality of Utility's Product

Staff's evaluation of Aquarina's water quality consisted of a review of the Utility's compliance with DEP primary and secondary drinking water standards, county health department standards, as well as customer complaints. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Staff reviewed chemical analyses of samples dated July 29, 2012, and September 23, 2015. All results were in compliance with the DEP primary and secondary water quality standards. These chemical analyses are performed every three years; therefore, the next scheduled analysis should be in 2018.

At the customer meeting, two customers complained that the water provided by the Utility was discoloring their in-home filters and they had to replace their filters more frequently than in the past. One of these complaints was also filed with the Commission. The Utility responded to one customer by email and stated that the customer could set up an appointment to have the filters examined. Complaints regarding the quality of the Utility's product have been minimal since 2010.

Jurisdiction of Aquarina's wastewater facilities is under the DEP. The Utility's wastewater treatment plant (WWTP) permit was renewed on March 24, 2013, and expires on March 23, 2018. Currently, the DEP has no violations or corrective orders pending against the Utility concerning the treatment and disposal of Aquarina's domestic wastewater.

In addition to being a water and wastewater service provider, the Utility also provides irrigation and fire-flow to its customer base through an isolated non-potable system. The Consumptive Use Permit (CUP) issued by the St. Johns River Water Management District (SJWMD) on November 7, 2011, allows the Utility to withdraw up to 0.12 million gallons per day (mgd) for household and commercial/industrial use. The CUP also allows up to 0.24 mgd for urban irrigation and

another 0.23 mgd for golf course irrigation. The Utility appears to be operating within the parameters of its CUP. All other regulation of the irrigation and fire-flow system is under the jurisdiction of the Office of the Brevard County Fire Rescue. Staff has not received any information from the Brevard County Fire Department indicating concerns about the pressure of the fire flow system.

Operating Condition of the Utility's Plant and Facilities

Aquarina provides finished potable water obtained from two wells, which draw ground water from the aquifer. The raw water is treated by a Reverse Osmosis (RO) system which filters impurities from the raw water. The potable water is then directed into a 3,000-gallon hydropneumatic tank and a 150,000 ground storage tank and then pumped into the water distribution system. The distribution system is composed of PVC pipe.

Sanitary surveys of water treatment plants are conducted triennially. On March 7, 2011, the DEP conducted a Sanitary Survey of Aquarina's water treatment plant and deemed it in compliance on April 25, 2011. On January 14, 2014, the DEP conducted another Sanitary Survey of Aquarina's water treatment plant. The DEP identified the following deficiencies:

- 1) The north well #1 (AAC2808) was noted leaking from the packing seals. Failure to maintain public water system components.
- 2) Failure to provide a smooth-nosed tap for sampling raw well water for well #1 (AAC2808).
- 3) Failure to conduct monitoring for Nitrate/Nitrite annually. The sample collected on December 30, 2013 was invalid due to holding exceedances.

Aquarina's wastewater treatment plant utilizes an extended aeration process. The facility is authorized to accept reject water from the existing RO water treatment plant. Flows (including RO reject water) to the plant are limited to 50,000 gpd which is the permitted capacity of the existing disposal system. A Wastewater Compliance Inspection Report was conducted on January 14, 2014, by the DEP and noted the following deficiencies:

- 1) Not completely filling out its monthly Discharge Monitoring Reports.
- 2) Not having required dual cylinders with automatic switchover or suitable scales for gas chlorination.
- 3) Due to excessive leaking, the sludge seals are in need of repair.

On January 27, 2014, the Utility reported to the DEP that all deficiencies with the water and wastewater treatment plants had been corrected. Subsequently, the DEP deemed the Utility in compliance on February 28, 2014. Staff's review of DEP compliance records indicates that Aquarina had no infractions from 2014 through 2015 for either the water or wastewater systems.

In its previous rate case, the Utility's non-potable water system was not considered satisfactory. At that time, the Utility was deemed to have violated National Fire Protection Association codes concerning the maintenance of the pumping system, maintenance of the distribution system, adequate system pressure, sufficient records of fire hydrant care and testing, etc. Based on discussions with the Brevard County Fire Rescue, the Utility is now in compliance with relevant codes.

The Utility's Attempt to Address Customer Satisfaction

The final component of the overall quality of service that must be assessed is the Utility's attempt to address customer satisfaction. As part of staff's evaluation of customer satisfaction, staff held a customer meeting on March 10, 2016, to receive customer comments concerning Aquarina's quality of service.

Approximately 45 customers attended the customer meeting in which 14 spoke about their experiences and concerns with the Utility's service. Eight of the customers who spoke at the customer meeting objected to the Utility's current rates or the magnitude of the proposed rate increase. As previously discussed in this issue, two customers reported problems associated with in-home filters.

One customer voiced issues with billing, particularly on the matter of incorrect meter readings that occurred in 2014. When contacted by the customer the Utility stated the high bill was due to a possible leak on the customer's property. The customer conducted an investigation of their pool and lanai however no leak was found. A credit was issued to the customer's bill. The customer filed a complaint with the Commission about the matter on March 7, 2016, prior to the customer meeting. The complaint was closed on March 14, 2016, since the matter was resolved in 2014.

Two customers discussed incidents involving the Utility's repair of water lines which caused water mixed with sand and debris to enter the home. The water line was crushed by the weight of an Oak tree. The Utility stated it advised the affected residence to flush their lines via the outside faucets for 15 minutes to clear the lines.

Finally, there were three accounts of the Utility failing to report service interruptions. The Utility stated it placed Boil Water notices on the doors of each residence and placed copies in the lobby of each of the condominium buildings. It also provided notifications via the development's property management office. The Utility has worked with the property manager to obtain emergency contact information for each of the sub-home owners associations in the community in an effort to better facilitate notification of Boil Water notices.

Staff also requested copies of complaints filed with the Utility during the test year and four years prior to the test year.⁵ The Utility responded that three customer complaints were received, all in 2011, all dealt with meter accuracy. A complaint was taken over the telephone; however, the Utility did not record the instance as a complaint. A refund also was provided to the customer.

Staff reviewed the Commission's complaint records from January 1, 2010, through July 13, 2016, and found six complaints, which include the three received by utility and all have been closed. Staff also requested complaints against the Utility filed with DEP for the 2014 test year and four years prior. DEP indicated that it has not received any complaints against the Utility during the requested time frame. Responses to subsequent requests to DEP indicate no complaints were received as of July 13, 2016.

⁵Document No. 01539-15 filed March 19, 2015.

Subsequent to the test year, Commission staff has received two complaints. The first was filed in March 2016 concerning a billing issue from 2014. The second was received on April 6, 2016, and concerned a leaking pipe on the Utility's side of the meter. The issue was resolved when the pipe was repaired on April 20, 2016. Both complaints filed with the Commission in 2016 have been closed. Table 1-1 below, summarizes the customer contacts for Aquarina.

**Table 1-1
Customer Contacts**

Subject of Complaint	PSC's Records (CATS)	Utility's Records	DEP	Customer Meeting*
Billing Related	4	3	0	2
Opposing Rate Increase	0	0	0	7
Quality of Service	2	0	0	9
Other	0	0	0	1
Total	6	0	0	19

*A complaint may appear more than once in this table if it meets multiple categories.

Summary

The Utility is in compliance with all primary and secondary water standards and the DEP deemed the Utility in compliance for both water and wastewater operations on February 28, 2014. Based on the discussion and review above, staff recommends the overall quality of service provided by Aquarina should be considered satisfactory.

Issue 2: What are the used and useful percentages (U&U) of Aquarina’s water treatment plant (WTP), WTP storage, distribution system, wastewater treatment plant, collection system, non-potable plant, non-potable distribution system, and non-potable storage?

Recommendation: Staff is recommending the following U&U percentages for Aquarina’s water, wastewater, and non-potable systems:

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for excessive unaccounted for water (EUW) or excessive inflow & infiltration (I&I). (Lewis)

Staff Analysis: Rates for Aquarina were previously set in 2003. For comparison purposes Table 2-1 below, summarizes the U&U determined in Aquarina’s 2003 rate case and the U&U being recommended by staff in the current case. Staff notes that Rule 25-30.4325, F.A.C., which codifies the Commission’s policy for calculating U&U, became effective in 2008.

Table 2-1

	Used and Useful	
	2003	Recommended
Water Treatment Plant	29.7 Percent	81.0 Percent
Water Distribution	62.6 Percent	62.6 Percent
Water Plant Storage	Not Calculated	46.7 Percent
Wastewater Plant	55.9 Percent	55.9 Percent
Wastewater Collection System	65.4 Percent	65.4 Percent
Non-Potable Plant	100 Percent	100 Percent
Non-Potable Distribution	100 Percent	100 Percent
Non-Potable Storage	Not Calculated	61.0 Percent

Potable Water Treatment Plant Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is ((Max Day - EUW + Fire Flow + Growth)/ Firm Reliable Capacity). Based on Aquarina's Monthly Operating Reports (MORs) the Max Day usage during the test year was 70,000 gallons. The Utility's MORs additionally indicate that there was no EUW during the test year. Staff's analysis of EUW is discussed in greater detail below. Fire flow is handled by a separate, non-potable system, therefore it is not considered in staff's evaluation of WTP used and useful. Historic flows indicate negative growth since 2011; therefore, staff is not making an adjustment for growth.

Rule 25-30.4325, F.A.C., provides that Firm Reliable Capacity (FRC) is expressed in gallons per day (gpd), based on 16 hours of pumping, for systems with storage capacity such as Aquarina's system. Typically the FRC is calculated by using the pumping capacity of the smallest well in the system which in this case is rated at 450 gpm. Based on 16 hours of availability the FRC equals 432,000 gpd. However, the Rule contains a provision by which an alternative calculation may be considered if supporting justification is provided, including service area or treatment capacity restrictions, changes in flows due to conservation or a reduction in the number of customers, and alternative peaking factors. The most recent DEP sanitary survey, for Aquarina's WTP, states that the Max Day capacity of the WTP is 86,400 gpd. Therefore, staff believes that 86,400 gpd should be used as the FRC. Based on the inputs discussed above, the resulting U&U calculation for the WTP equals 81 percent $(70,000 - 0 + 0 + 0/86,400)$.

In Aquarina's 2003 rate case, the water treatment plant was deemed 29.7 percent U&U. As previously noted, Rule 25-30.4325, F.A.C., became effective subsequent to the Commission's decision in that case. Review of the U&U analysis in the previous case shows that storage was considered in determining the FRC. Rule 25-30.4325(3), F.A.C., states that [s]eparate used and useful calculations shall be made for the water treatment system and storage facilities. Staff's U&U calculation for Aquarina's storage facilities is discussed later.

Excessive Unaccounted for Water

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

Aquarina's MORs show that the Utility treated 12,046,000 gallons and sold 12,322,490 gallons of water during the test year. This indicates the Utility sold 276,490 gallons more than it treated. Therefore, the Utility had an unaccounted for water value of negative 2.24 percent. The Utility explained its flow meter has an error margin of 6 percent.⁶ Even if staff were to recommend an

⁶ Document No. 04356-15 filed July 13, 2015.

adjustment to account for the inaccuracy of the flow meter, the unaccounted for water would not exceed 10 percent. Therefore, staff is recommending that no adjustment be made to operating expenses for chemicals and purchase power due to the EUW.

Potable Water Treatment Plant Storage Used & Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for WTP storage is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth})/\text{usable storage of the water storage tank})$. Aquarina's water storage tank is rated at 150,000 gallons. The resulting calculation, assuming the Max Day discussed in the previous section, equals 46.7 percent $((70,000 - 0 + 0 + 0)/150,000)$.

Potable Water Distribution System Used & Useful

In the Utility's previous rate case, distribution system used and useful was based on the capacity of the system and the number of test year connections measured on the basis of equivalent residential connections (ERCs). A growth allowance of 60 ERCs was also considered in the previous rate case. In response to a staff data request, the Utility stated that it does not have access to records which detail expansion or changes to the distribution system from 2003 to 2011. Due to incomplete records regarding Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's distribution system. To this point, staff notes that the Utility was obtained by current ownership in 2012.

In Aquarina's 2003 rate case, it was noted that recent approvals from Brevard County expanded the Utility's growth potential from 436 ERCs to 600 ERCs. Therefore, it is reasonable to consider that expansion of the water distribution may have occurred in the 2003 to 2011 timeframe.

Staff additionally considered whether or not the system should be considered built-out which would result in a U&U of 100 percent. Based on staff's review of the area, as well as communication with local community managers, it appears that there is potential for new construction in the area.

Given the lack of available information, staff recommends adhering to the prior Commission decision to consider the water distribution system 62.6 percent U&U. As discussed in Issue 3, staff is recommending granting the Utility's request for Geographic Information System (GIS) mapping of its plant to determine the current connection capacity of its water distribution system. The GIS mapping will allow the Utility to provide accurate information regarding its distribution system.

Wastewater Treatment Plant Used & Useful

In Aquarina's 2003 rate case, the WWTP was found to be 55.9 percent U&U. The Annual Average Daily Flow (AADF) from the Discharge Monitoring Reports filed monthly with DEP was 38,296 gpd. Pursuant to Rule 25-30.432, F.A.C., the U&U calculation for a WWTP is $((\text{AADF} - \text{I\&I} + \text{Growth})/\text{permitted capacity})$. As discussed in greater detail below, I&I for the WWTP cannot be accurately determined at this time, therefore, staff is not including an I&I value in its calculation. Based on historic flows, staff does not believe an adjustment for growth should be made at this time. The facility has a permitted capacity of 99,000 gpd.

Based on the inputs discussed above, the resulting calculation equals 44.8 percent $((38,296 - 0 + 0)/99,000 \text{ gpd})$ which is lower than the previously Commission ordered U&U percentage of 55.9 percent. Therefore, staff recommends adhering to the prior Commission decision to consider the wastewater treatment plant to be 55.9 percent U&U.

Inflow & Infiltration (I&I)

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. Typically, inflow results from water entering a wastewater collection system through manholes or lift stations; whereas, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. It is an industry standard and Commission practice to allow 10 percent of water sold as inflow plus 500 gpd per inch diameter pipe per mile for infiltration.⁷ The sum of these amounts is the allowable I&I.

The Utility was not able to provide the size and length of its wastewater mains and indicated that it has incomplete records. Absent this information, an allowance for infiltration cannot be accurately determined. Therefore, staff is recommending no adjustments to operating expenses due to I&I. This recommendation is consistent with the Commission's decision in Aquarina's last rate case in which the Commission identified I&I as N/A and an adjustment was not made.⁸

Wastewater Collection System Used & Useful

For the same reasons discussed in staff's U&U analysis of Aquarina's water distribution system, staff is unable to determine the current capacity of the Utility's wastewater collection system. Therefore, consistent with staff's recommendation regarding the Utility's distribution system, staff recommends adhering to the prior Commission decision to consider the wastewater collection system to be 65.4 percent U&U.

Non-Potable Water System and Water Distribution System Used & Useful

Although a specific rule for non-potable water systems does not exist, staff believes that the U&U equation for a WTP might reasonably be applied to a non-potable water system. Aquarina's non-potable water system is served by a single well. Pursuant to Rule 25-30.4325, F.A.C., a water treatment system is considered 100 percent U&U if the system is served by a single well. Therefore, staff recommends that Aquarina's non-potable water system be considered 100 percent U&U. Moreover, in Aquarina's 2003 rate case, the Utility's non-potable water distribution system was determined to be 100 percent U&U. Staff has not received any information that the non-potable water distribution system has been expanded. Therefore, staff recommends that the non-potable water distribution system be considered 100 percent U&U.

⁷ Order No. 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.*

⁸ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Non-Potable Water Storage Used & Useful

Similar to staff’s evaluation of Aquarina’s non-potable water system, staff recommends that the standards contained in Rule 25-30.4325, F.A.C., might reasonably be used to determine the U&U of the Utility’s non-potable water storage. Therefore, the U&U of Aquarina’s non-potable water system is $((\text{Max Day} - \text{EUW} + \text{Fire Flow} + \text{Growth}) / \text{Firm Reliable Capacity})$. For the Max Day staff relied on test year data and determined a value of 512,052 gallons based on a daily average for the peak month. Based on a response to a staff data request, the Utility is required to maintain 250,000 gallons for fire flow. Historic flows indicate negative growth since 2011, therefore, staff does not believe an adjustment for growth should be made. The FRC of the non-potable water storage is 1.25 million gallons.

Sufficient information was not available to determine EUW, therefore staff has no basis to support an adjustment for EUW. Based on the inputs discussed above, staff recommends that a U&U of 61 percent $((512,052 - 0 + 250,000) / 1,250,000)$ for Aquarina’s non-potable water storage.

Summary

The following U&U percentages for water, wastewater, and non-potable systems should be considered in setting rates for Aquarina.

Plant	U&U Percentage
Water Treatment Plant	81.0 Percent
Water Distribution	62.6 Percent
Water Plant Storage	46.7 Percent
Wastewater Plant	55.9 Percent
Wastewater Collection System	65.4 Percent
Non-Potable Plant	100 Percent
Non-Potable Distribution	100 Percent
Non-Potable Storage	61.0 Percent

Staff also recommends that no adjustments to operating expenses be made for EUW or excessive I&I.

Issue 3: What is the appropriate average test year potable water rate base, non-potable water rate base, and wastewater rate base for Aquarina?

Recommendation: The appropriate average test year potable water, non-potable water, and wastewater rate bases are \$170,153, \$172,587, and (\$2,091), respectively. (L. Smith, Lewis)

Staff Analysis: Aquarina’s net book value was last established in its 2012 transfer docket by Order No. PSC-12-0577-PAA-WS.⁹ The test year ended December 31, 2014, was used for the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded UPIS of \$1,907,336 for potable water, \$22,080 for non-potable water, and \$2,116,139 for wastewater. The staff audit identified several adjustments resulting in an increase to UPIS for potable water, non-potable water, and wastewater of \$49,635, \$905, and \$7,708 respectively. These adjustments are shown on Table 3-1, Table 3-2, and Table 3-3.

Table 3-1

Potable Water Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
304	Structures & Improvements	\$210	Correct transfer amount posted in 2011
311	Pumping Equip.	1,820	Reclassify O&M Expense to capitalize to plant net of retirement
320	Water Treatment Equip.	5,559	Correct transfer amount posted in 2011
331	T&D Mains	2,188	Correct transfer amount posted in 2011
333	Services	158	Correct transfer amount posted in 2011
334	Meters & Meter Installations	(5,956)	Correct transfer amount posted in 2011
339	Other Plant & Misc. Equip.	899	Correct transfer amount posted in 2011
341	Transportation Equip.	40,596	To reflect the appropriate allocation between water and wastewater
343	Tools, Shop, & Garage Equip.	900	Reclassify O&M Expense to capitalize to plant
344	Lab Equip.	2,000	Reclassify O&M Expense to capitalize to plant
347	Misc. Equip.	1,261	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$49,635</u>	

Source: Audit

Table 3-2

Non-Potable Water Audit Adjustment			
Acct.	Description	Adjustment	Reason for Adjustment
311	Pumping Equip.	\$905	Reclassify O&M Expense to capitalize to plant net of retirement

Source: Audit

⁹ Order No. PSC-12-0577-PAA-WS, issued October 25, 2012, in Docket No. 110061-WS, *In re: Application for authority to transfer assets and Certificate Nos. 507-W and 450-S of Service Management Systems, Inc. to Aquarina, Inc. in Brevard County.*

Table 3-3

Wastewater Audit Adjustments			
Acct.	Description	Adjustments	Reason for Adjustment
354	Structures & Improvements	\$774	Correct transfer amount posted in 2011
360	Collection - Sewers Forced	2,872	To capitalize plant addition
364	Flow Measurement Devices	1,475	Reclassify O&M Expense to capitalize to plant
380	Treatment & Disposal Equip.	(8,077)	Correct transfer amount posted in 2011
390	Office Furniture & Equip.	(10,200)	To remove transfer
391	Transportation Equip.	20,298	To reflect the appropriate allocation between water and wastewater
394	Laboratory Equipment	565	Correct transfer amount posted in 2011
	Total Adjustments	<u>\$7,708</u>	

Source: Audit

In addition, staff made adjustments to UPIS by decreasing UPIS for potable water and increasing UPIS for non-potable water in order to match the amount of audited Contributions in Aid of Construction (CIAC) for the non-potable system. This resulted in a decrease to potable water UPIS and a corresponding increase to non-potable water UPIS of \$90,305. Staff then reduced UPIS for potable and non-potable water by \$36,324 and \$67,162, respectively, to retire CIAC accounts that were over-amortized.

Staff further reduced potable water UPIS and increased non-potable water UPIS by \$234,124 to reflect Commission-ordered adjustments.¹⁰ Based on conversations with the Chief Operator of the Utility, staff reduced potable water and increased non-potable water by \$149,558, to impute Transmission and Distribution Mains for the non-potable system.

Staff also reduced wastewater UPIS and increased non-potable water UPIS by \$512,792 to reflect previous Commission-ordered adjustments.¹¹ Further, staff made averaging adjustments to decrease UPIS for potable water, non-potable water, and wastewater by \$2,329, \$31, and \$1,436, respectively.

Pro Forma Plant

On July 6, 2015, the Utility submitted a request to replace several critical parts of its aging plant along with acquiring new system maps of its infrastructure.¹²

Water Treatment Plant – Reverse Osmosis Skid

Aquarina requested replacement of its reverse osmosis skid due to its age. The Utility indicated that the unit has been in operation since 1984, it is fully depreciated and replacement parts are

¹⁰ Order Nos. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.* and PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

¹¹ Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, *In re: Application for staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

¹² See Document 04406-15 filed July 14, 2015.

becoming scarce. Aquarina additionally indicated that it requested quotes for service contracts on the system, but none were provided, even from the vendor that sold Aquarina the original system. Staff agrees with the Utility that it is prudent to replace its reverse osmosis skid at this time. The Utility provided five quotes from three manufactures ranging in price from \$42,637 to \$68,430. Aquarina selected the second to lowest bid based on the system's capacity to provide service to its existing and future customer base.¹³ The final quote was \$52,232 and includes maintenance services.¹⁴

Distribution and Collection Systems – GIS Mapping

Upon purchase, the Utility did not receive adequate records indicating the location and scope of its current distribution and collection systems. The maps and plans in the possession of the Utility do not represent the modifications and changes to the system up to this date. Aquarina stated that plans and diagrams are needed to delineate its three systems (potable, non-potable, and sewer). The maps and plans will also allow the Utility to respond to 811 Florida One-Call. Aquarina requested two quotes to perform system mapping. Only one party provided a quote to the Utility in the amount of \$76,768. Based on review of a previous rate case the quote appears to be reasonable.¹⁵ Aquarina service area is larger and has three (two water distribution and a wastewater collection) systems while only wastewater service is provided by the referenced Utility in Docket No. 130178-SU.

Wastewater Treatment Plant – Catwalks & Sand Filter Blowers

The catwalks inside the WWTP are rusted and need repair. Due to the safety concerns, Aquarina requested the replacement of the catwalks. During a plant visit on June 3, 2015, staff observed the condition of the catwalks and agrees that the catwalks should be replaced. A single quote of \$9,431 was provided to replace the catwalks. In addition, the operator stated the blowers for the sand filters needed to be replaced due to their age. During staff's site visit, the blowers appeared to be very aged and worn down by the coastal environment. Staff selected the lower of two quotes (\$5,446 and \$11,296) received to replace the sand filter air compressors.

Wastewater Treatment Plant – Blowers

The Utility stated the WWTP blowers are aged and often need repair. After observing the condition of blowers, staff believes it is prudent for the Utility to replace the blowers to diminish the frequency of repair. The Utility received three quotes ranging from \$27,912 to \$71,500 to perform the requested work. The selected quote to replace the blowers is \$27,912.¹⁶

Meter Retirements and Safety Equipment

Aquarina states several of its residential customer meters are not working properly and need to be replaced. Staff suggested to the Utility to incorporate a meter replacement program into its maintenance program. Based on the information provided by the Utility, staff expects the replacement of 40 meters per year at an estimated cost of \$2,800 per year. The Chief Operator of the Utility, stated approximately 100 meters have been replaced over the previous four years due to the corrosiveness of the environment with 20 meters still needing replacement as of August

¹³ See Document 04356-15 filed July 13, 2015, p. 61.

¹⁴ See Document 06654-15 filed October 19, 2015.

¹⁵ Order No. PSC-16-0204-FOF-SU filed May 19, 2016.

¹⁶ See Document 04356-15 filed July 13, 2015, p. 71.

2015. The provided meter records indicate 17 residential water meters were replaced during 2014. Thus, it appears to be reasonable to allow the Utility to replace approximately of 20 potable and 20 non-potable water meters per year. In addition, the Utility included the cost of protective gear (cones, vests, helmets and boots) which staff agrees is necessary and appropriate for personnel safety.

As a result, staff made net adjustments increasing UPIS for potable water, non-potable water, and wastewater of \$5,896, \$2,774, and \$2,424, respectively, for these pro forma plant additions. Therefore, staff recommends that the appropriate UPIS balances are \$1,450,227 (\$1,907,336 + \$49,635 - \$90,305 - \$36,324 - \$234,124 - \$149,558 - \$2,329 + \$5,896) for potable water, \$945,345 (\$22,080 + \$905 + \$90,305 - \$67,162 + \$234,124 + \$149,558 + \$512,792 - \$31 + \$2,774) for non-potable water, and \$1,612,043 (\$2,116,139 + \$7,708 - \$512,792 - \$1,436 + \$2,424) for wastewater.

Land & Land Rights

The Utility recorded test year land values of \$62,080 for potable water and \$33,680 for wastewater. Based on staff's review, an adjustment was made to allocate a portion of land to non-potable water based on the ratio of potable to non-potable plant. Accordingly, staff reduced the balance for potable water and increased the balance for non-potable water by \$24,498. Therefore, staff recommends that the appropriate land balances are \$37,582 (\$62,080 - \$24,498) for potable water and \$24,498 for non-potable water. No adjustment was required to the Utility's wastewater land balance of \$33,680.

Non-Used and Useful (U&U) Plant

As discussed in Issue 2, the water treatment plant should be considered 81.0 percent U&U. The water treatment storage is calculated as 46.7 percent U&U and the water distribution system is 62.6 percent U&U. The non-potable storage tank should be considered 61.0 percent U&U. The wastewater treatment plant should be considered 55.9 percent U&U and the wastewater collection system should be considered 65.4 percent U&U. Based on these U&U percentages, staff has reduced potable water plant by \$490,147 and reduced potable water accumulated depreciation by \$416,953. Staff also reduced non-potable water plant and accumulated depreciation by \$199,989. Additionally, staff has reduced wastewater plant by \$480,926 and reduced accumulated depreciation by \$418,603. Based on the above, the non-U&U component is \$73,194 (\$490,147 - \$416,953) for potable water, \$0 (\$199,989 - \$199,989) for non-potable water, and \$62,323 (\$480,926 - \$418,603) for wastewater, respectively.

Accumulated Depreciation

The Utility recorded a test year Accumulated Depreciation balance of \$1,522,797 for potable water and \$1,866,188 for wastewater. No Accumulated Depreciation was recorded for non-potable water. The staff auditor recalculated Accumulated Depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and increased these accounts by \$10,652 for potable water and \$18,566 for wastewater. Staff made an adjustment to allocate the appropriate amount of Accumulated Depreciation to the non-potable water system. This adjustment resulted in a decrease to the balance for potable water and an increase to the balance for non-potable water of \$10,365.

Staff also made adjustments to Accumulated Depreciation to match the amount of the audited balances of Accumulated Amortization of CIAC. Staff therefore decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$99,758. Staff reduced Accumulated Depreciation for potable and non-potable water by \$52,420 and \$86,236, respectively, to reflect the retirements associated with the fully amortized CIAC accounts.

Staff further decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$202,514, and decreased wastewater and increased non-potable water by \$512,792 to reflect the Commission-ordered adjustments discussed in the UPIS section. Staff decreased Accumulated Depreciation for potable water and increased this account for non-potable water by \$67,369 to reflect the imputation of T&D Mains for the non-potable water system.

Staff made averaging adjustments that resulted in decreases of \$20,232 for potable water, \$265 for non-potable water, and \$14,814 for wastewater. Further, staff made adjustments based on pro forma plant additions and retirements resulting in a decrease of \$9,898 for potable water and \$923 for non-potable water, and an increase of \$45 for wastewater. Staff's adjustments result in Accumulated Depreciation balances of \$1,070,894 ($\$1,522,797 + \$10,652 - \$10,365 - \$99,758 - \$52,420 - \$202,514 - \$67,369 - \$20,232 - \$9,898$) for potable water, \$805,374 ($\$10,365 + \$99,758 - \$86,236 + \$202,514 + \$512,792 + \$67,369 - \$265 - \923) for non-potable water, and \$1,357,193 ($\$1,866,188 + \$18,566 - \$512,792 - \$14,814 + \45) for wastewater.

Contributions In Aid of Construction (CIAC)

The Utility recorded CIAC balances of \$483,149 for potable water and \$603,375 for wastewater. No CIAC was recorded for non-potable water. Based on the staff audit, potable water CIAC was decreased by \$95,372 and non-potable water was increased by \$107,222 to reflect the appropriate CIAC balances. Staff reduced CIAC for potable and non-potable water by \$36,324 and \$67,162, respectively, to reflect retirements staff made to CIAC accounts that were over-amortized. Averaging adjustments were made to decrease the balances for potable water by \$13,585, non-potable water by \$4,275, and wastewater by \$6,032. Therefore, staff recommends that the appropriate CIAC balances are \$337,868 ($\$483,149 - \$95,372 - \$36,324 - \$13,585$) for potable water, \$35,785 ($\$107,222 - \$67,162 - \$4,275$) for non-potable water, and \$597,343 ($\$603,375 - \$6,032$) for wastewater.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$276,662 for potable water and \$299,305 for wastewater. No accumulated amortization of CIAC was recorded for non-potable water. Accumulated amortization of CIAC has been recalculated by staff using composite depreciation rates. As a result, staff decreased the balance by \$70,242 for potable water, increased the balance by \$107,911 for non-potable water, and increased the balance for wastewater by \$58,562. Staff reduced this account for potable and non-potable by \$52,420 and \$86,236, respectively, associated with the CIAC retirements discussed above. Staff also decreased the balances by \$4,657 for potable water, \$1,564 for non-potable water, and \$7,758 for wastewater to reflect the appropriate averaging adjustments. Staff's recommended accumulated amortization of CIAC balances are \$149,343 ($\$276,662 - \$70,242 - \$52,420 - \$4,657$) for potable

water, \$20,111 (\$107,911 - \$86,236 - \$1,564) for non-potable water, and \$350,109 (\$299,305 + \$58,562 - \$7,758) for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,957 for potable water, \$23,792 for non-potable water and \$18,936 for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$170,153 for potable water, \$172,587 for non-potable water, and (\$2,091) for wastewater. Potable water, non-potable water, and wastewater rate bases are shown on Schedule Nos. 1-A, 1-B, and 1-C, respectively. The related adjustments are shown on Schedule No. 1-D.

Issue 4: What is the appropriate return on equity and overall rate of return for Aquarina Utilities, Inc.?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 3.66 percent. (L. Smith)

Staff Analysis: According to the staff audit, Aquarina's test year capital structure reflected negative common equity of \$505,064 and a long-term debt balance of \$863,346. Staff increased long-term debt by \$8,921 to correct the outstanding principal balance for a State Revolving Fund Loan on the Utility's general ledger. Staff further reduced long-term debt by \$425,516 and included it in common equity. This amount is included in the Utility's Annual Reports as "Advances from Associated Companies" and represents deferred payments to or cash infusions by the Utility owners and related parties. In accordance with Commission practice, staff further reduced the negative common equity to set it to zero.¹⁷ The Utility recorded customer deposits of \$193. Staff reduced customer deposits by \$32 to reflect an averaging adjustment. Therefore, staff recommends a customer deposit balance of \$161 (\$193 - \$32) and a long-term debt balance of \$446,751 (\$863,346 + \$8,921 - \$425,516). Finally, the Utility's capital structure was reconciled with staff's recommended rate base.

The appropriate ROE for the Utility is 11.16 percent based upon the Commission-approved leverage formula currently in effect.¹⁸ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 3.66 percent. The ROE and overall rate of return are shown on Schedule No. 2.

¹⁷ See e.g., Order No. PSC-08-0483-PAA-WS, issued July 25, 2008, in Docket No. 070627-WU, *In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.*

¹⁸ Order No. PSC-16-0254-PAA-WS, issued June 29, 2016, in Docket No. 160006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for Aquarina’s water and wastewater system?

Recommendation: The appropriate test year revenues for Aquarina’s water and wastewater systems are \$268,677 (\$170,848 potable + \$97,829 non-potable) and \$161,821, respectively. (Bruce)

Staff Analysis: Aquarina recorded total test year revenues of \$266,168 for water and \$160,261 for wastewater. The water revenues included \$263,949 of service revenues and \$2,219 of miscellaneous revenues. The wastewater revenues included \$159,976 of service revenues and \$285 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff normalized the number of bills by adjusting for customers moving in and out during the test year to reflect 12 months of bills. Based on staff’s review of the Utility’s billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be \$264,604 for water and \$161,166 for wastewater. This results in increases of \$655 and \$1,190 for water and wastewater test year service revenues, respectively.

Staff also made adjustments to miscellaneous revenues for water and wastewater. The Utility recorded unsupported revenues to miscellaneous water revenues and improperly recorded late payment charges for wastewater. As discussed in Issue 12, staff increased the Utility’s miscellaneous service charges for water and wastewater to allow the cost causer to pay the cost associated with those services; therefore, staff annualized the Utility’s miscellaneous service revenues. For this reason, staff increased miscellaneous water service revenues by \$1,853 and increased miscellaneous wastewater service revenues by \$370. Table 5-1 below, represents a summary of staff’s adjustments for test year revenues.

**Table 5-1
 Test Year Revenues**

	Water*	Wastewater
Service Revenues		
Utility Recorded Service Revenues	\$263,949	\$159,976
Staff’s Adjustment	\$ 655	\$1,190
Total Service Revenues	\$264,605	\$161,166
Miscellaneous Revenues		
Utility Recorded Miscellaneous Revenues	\$2,219	\$285
Staff’s Miscellaneous Revenue Adjustments	\$1,853	\$370
Total Miscellaneous Revenues	\$4,072	\$655
Total Test Year Revenues	\$ 268,677	\$161,821
* Includes both potable and non-potable revenues		

Source: Utility’s general ledger and staff’s calculations.

Based on the above, the appropriate test year revenues for Aquarina’s water and wastewater systems, including miscellaneous revenues are \$268,677 and \$161,821, respectively.

Issue 6: What is the appropriate test year water and wastewater operating expenses for Aquarina Utilities, Inc.?

Recommendation: The appropriate amount of operating expense for the Utility is \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. (L. Smith, Lewis)

Staff Analysis: Aquarina recorded operating expense of \$113,009 for potable water, \$170,010 for non-potable water, and \$146,926 for wastewater for the test year ended December 31, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below.

Operation and Maintenance Expenses

Salaries and Wages for Employees (601/701)

Aquarina recorded Salaries and Wages for Employees expense of \$48,832 for potable water, \$74,014 for non-potable water, and \$61,423 for wastewater. Staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$1,707, \$2,587, and \$2,147, respectively. The adjustments are to normalize Salaries and Wages for Employees expense by removing payroll associated with two former employees that were not replaced by the Utility. Also, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$183, \$278, and \$231, respectively, in order to remove an insurance reimbursement to an employee who no longer works for Aquarina and was not replaced. In addition, staff reduced potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$4,807, \$7,286, and \$6,046, respectively, in order to remove unpaid salary accruals from outside the test year. Further, staff increased potable water, non-potable water, and wastewater Salaries and Wages for Employees expense by \$28,663, \$43,444, and \$36,053, respectively, to include three new maintenance workers that were requested by the Utility. Aquarina's facilities are more than 30 years old. The new employees are needed to help maintain the system and to respond to customer complaints. Staff believes the addition of three employees is reasonable and necessary.

All common O&M expenses were allocated between potable water and non-potable water based on the methodology described in the last rate case with the exception of accounts 632, 634, 635, 667, and 675.¹⁹ Staff believes the expenses included in these accounts are either directly allocable or reflect fixed costs and has adjusted the percentages accordingly. The portions of the expenses that are fixed were allocated between potable water and non-potable water based on ERCs. The variable portion of these expenses are allocated based on gallons sold. This allocation method is shown on Attachment A. Therefore, staff recommends Salaries and Wages for Employees expenses of \$70,798 (\$48,832 - \$1,707 - \$183 - \$4,807 + \$28,663) for potable water, \$107,308 (\$74,014 - \$2,587 - \$278 - \$7,286 + \$43,444) for non-potable water, and \$89,052 (\$61,423 - \$2,147 - \$231 - \$6,046 + \$36,053) for wastewater.

¹⁹ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, p. 40, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*

Employee Pension and Benefits (604/704)

The Utility did not record any Employee Pension and Benefits expense. Staff increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,670, \$8,594, and \$7,132, respectively. These adjustments reclassify \$7,132 of insurance expense from Account 659/759 – Insurance Other and annualize that amount to provide health insurance for Aquarina’s two existing employees. The adjustments are based on an annualized premium of \$21,396 ($\$7,132 / 4 \text{ months} \times 12 \text{ months}$). Staff also increased potable water, non-potable water, and wastewater Employee Pension and Benefits expense by \$5,446, \$8,254, and \$6,850, respectively, in order to include health insurance and workers compensation insurance for the three new maintenance employees. Therefore, staff recommends Employee Pension and Benefits expenses of \$11,116 ($\$5,670 + \$5,446$) for potable water, \$16,848 ($\$8,594 + \$8,254$) for non-potable water, and \$13,982 ($\$7,132 + \$6,850$) for wastewater.

Purchased Power (615/715)

The Utility recorded Purchased Power expense of \$3,180 for potable water, \$32,150 for non-potable water, and \$17,665 for wastewater. Staff increased the expense for potable and non-potable water by \$357 and \$3,609, respectively, and reduced wastewater expense by \$4,254 to recognize the following adjustments. Staff replaced the December 2013 electric bills that were included in the general ledger with the December 2014 electric bills resulting in a net increase of \$462, and removed a monthly allocation for office purchased power that ceased in May 2014 resulting in a decrease of \$750. The adjustments result in a net reduction of \$288 ($\$462 - \750) to Purchased Power expense. Staff also directly charged a lift station power bill to wastewater Purchased Power expense and reallocated the total common purchased power from 66.67 percent for water and 33.33 percent for wastewater which was used by Aquarina to 75 percent for water and 25 percent for wastewater based on staff’s engineering evaluation of power usage allocation established in Order No. PSC-03-1342-PAA-WS. Therefore, staff recommends Purchased Power expenses of \$3,537 ($\$3,180 + \357) for potable water, \$35,759 ($\$32,150 + \$3,609$) for non-potable water, and \$13,411 ($\$17,665 - \$4,254$) for wastewater.

Chemicals (618/718)

The Utility recorded Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater. Staff has reviewed the invoices and charges to this account and finds this amount to be reasonable. Therefore, staff recommends Chemical expense of \$1,564 for potable water, \$48 for non-potable water, and \$1,289 for wastewater.

Materials and Supplies (620/720)

The Utility recorded Materials and Supplies expense of \$6,424 for potable water, \$4,873 for non-potable water, and \$6,023 for wastewater. Staff increased Materials and Supplies expense for potable water, non-potable water, and wastewater by \$705, \$1,686, and \$1,196, respectively, to include reimbursement for an October miscellaneous expense voucher that was not posted to the general ledger. Staff also reduced Materials and Supplies expense for potable water by \$1,079 and non-potable water by \$2,578 to reclassify and capitalize to Account 311 – Pumping Equipment the cost to replace two 7 ½ horse power (hp) booster pumps at the water plant. Staff further reduced Materials and Supplies expense for potable water, non-potable water and wastewater expense by \$110, \$263, and \$186, respectively, to remove non-utility purchases in June and September of the test year. Therefore, staff recommends Materials and Supplies

expense of \$5,941 ($\$6,424 + \$705 - \$1,079 - \110) for potable water, \$3,717 ($\$4,873 + \$1,686 - \$2,578 - \263) for non-potable water, and \$7,033 ($\$6,023 + \$1,196 - \186) for wastewater.

Contractual Services - Professional (632/732)

Aquarina recorded Contractual Services – Professional expense of \$3,807 for potable water, non-potable water, and wastewater. This account consists of expenses related to income tax and PSC Annual Report preparation. Staff reduced this account by \$533 ($\$666 - \133) for potable water, non-potable water, and wastewater to remove accounting expenses associated with filing an extension for income taxes. Since this expense is non-recurring, staff has decreased this account by \$666 for potable water, non-potable water, and wastewater, to remove the expense and increased this expense by \$133 for potable water, non-potable water, and wastewater to amortize the amount over five years. Therefore, staff recommends Contractual Services Professional Expense of \$3,274 for potable water, non-potable water, and wastewater.

Contractual Services – Management Fees (634/734)

Aquarina recorded Contractual Services – Management Fees expense of \$1,930 for potable water, non-potable water, and wastewater. Staff believes this amount is reasonable, but would note that we are not recommending an increase related to payroll processing for the new employees requested by the Utility.

Contractual Services - Testing (635/735)

Aquarina recorded Contractual Services - Testing expense of \$669 for potable water and \$3,107 for wastewater. Staff reduced potable water by \$401 and wastewater by \$1,106. These adjustments remove non-utility testing expenses that were identified during the review of the contract vendors' invoices for testing services. Therefore, staff recommends Contractual Services – Testing expenses of \$268 ($\$669 - \401) for potable water and \$2,001 ($\$3,107 - \$1,106$) for wastewater.

Contractual Services - Other (636/736)

Aquarina recorded Contractual Services - Other expense of \$2,737 for potable water, \$6,541 for non-potable water, and \$2,154 for wastewater. Staff reduced non-potable water expense by \$3,620 to reclassify and capitalize to Account 311 – Pumping Equipment, the cost to replace a 75-hp non-potable well pump at the water plant. Staff increased potable water by \$2,703 and non-potable water by \$720 to include contract labor to service the potable booster pumps shown on an October miscellaneous expense voucher that was not posted to the general ledger.

Staff also increased this expense for potable water by \$1,160, for non-potable water by \$36, and wastewater by \$298 to reflect an amortized amount of pro forma repairs. Since this increase is non-recurring, staff has amortized this amount over five years in accordance with Rule 25-30.433(8), F.A.C. Staff also reduced this expense by \$783 for potable water, \$1,872 for non-potable water, and \$390 for wastewater to remove charges for meter reading that will be performed by one of the new employees covered earlier.

Staff further reduced this expense by \$183 for potable water, \$437 for non-potable water, and \$584 for wastewater to remove and amortize non-recurring expenses in this account. Therefore, staff recommends Contractual Services – Other expense of \$5,634 ($\$2,737 + \$2,703 + \$1,160 - \$783 - \183) for potable water, \$1,368 ($\$6,541 - \$3,620 + \$720 + \$36 - \$1,872 - \437) for non-potable water, and \$1,478 ($\$2,154 + \$298 - \$390 - \584) for wastewater.

Rental of Building/Property 641/741)

Aquarina recorded Rental of Building/Property expense of \$334 for potable and non-potable water, and \$333 for wastewater. Staff decreased this expense for potable and non-potable water by \$334, and wastewater expense by \$333 for the test year. This adjustment removes the 2014 office rental expense for an office at the owner's home. That office is no longer needed as the Utility now has an onsite office. Staff then increased Rental of Building/Property expense by \$3,000 for potable water, non-potable water, and wastewater to reflect the rental of 1,200 square feet of a 2,400 square foot maintenance/storage building on the owner's property. This represents a price per square foot of \$0.63. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. However, it is a Utility's burden to prove that its costs are reasonable.²⁰ The burden is even greater when the transaction is between related parties. The Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.²¹ Based on its analysis, staff reduced Rental of Building/Property expense by \$396 for potable water, non-potable water, and wastewater to reflect a price per square foot of \$0.54. This price was derived by taking the average rental price for seven similarly sized warehouse rentals in the City of Melbourne. Thus, staff recommends Rental of Building/Property expense of \$2,604 ($\$334 - \$334 + \$3,000 - \396) for potable and non-potable water, and \$2,604 ($\$333 - \$333 + \$3,000 - \396) for wastewater.

Rental of Equipment (642/742)

Aquarina recorded Rental of Equipment expense of \$7,800 for potable water, non-potable water, and wastewater. The owners of the Utility own this equipment and lease it to the Utility. Staff reduced this expense for potable water, non-potable water, and wastewater by \$7,800 for the test year.²² These adjustments remove 2014 water and wastewater annual equipment lease expenses. Staff then increased Rental of Equipment expense by \$6,000 for potable water, non-potable water, and wastewater to include the 2015 water and wastewater lease expense. Staff further reduced Rental of Equipment expense by \$1,200 for potable water, non-potable water, and wastewater. This adjustment removes the lease for a lawn mower because Aquarina has now purchased a mower. This adjustment also includes a reduction to a separate lawn equipment lease. This adjustments further removes the electric golf cart and dump trailer which were deemed to be duplicative given the other equipment already rented by the Utility. Thus, staff recommends Rental of Equipment expense of \$4,800 ($\$7,800 - \$7,800 + \$6,000 - \$1,200$) for potable water, non-potable water, and wastewater.

Transportation Expense (650/750)

Aquarina recorded Transportation expense of \$3,731 for potable water, \$8,917 for non-potable water, and \$6,520 for wastewater. During the test year, Aquarina paid \$3,518 for mileage reimbursements to its employees and contractors.

²⁰ *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

²¹ *GTE Florida Inc. v. Deason*, 642 So. 2d 545 (Fla. 1994). (Court applying higher standard.).

²² Staff's analysis included comparing lease amounts to a rate of return methodology.

The office manager uses her personal vehicle to travel to and from the bank, post office, and for other related duties. She estimated her monthly mileage to be 645 miles based on historical documents. Accordingly, staff believes the mileage estimate is reasonable given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. Staff recommends the office manager be reimbursed for the business use of her personal vehicle at the IRS 2015 mileage rate of \$0.575 applied to an annual estimate of 7,740 miles (645 miles per month x 12 months). This results in an annual amount of \$4,451 (7,740 x \$0.575). Therefore, staff has made a net increase to Transportation expense of \$933 (\$4,451 - \$3,518), allocated at \$183 for potable water, \$439 for non-potable water, and \$311 for wastewater.

The fuel portion of the Transportation expense was reduced by \$733 for potable water, \$1,752 for non-potable water, and \$1,242 for wastewater to remove reimbursement for non-utility purchases. Staff also reduced Transportation expense by \$292 for potable water, \$699 for non-potable water, and \$496 for wastewater to remove repairs for non-utility vehicles. Further, staff removed expenses of \$148 for potable water, \$352 for non-potable water, and \$250 for wastewater related to unsupported costs for airline tickets. Therefore, staff recommends Transportation expense of \$2,742 (\$3,731 + \$183 - \$733 - \$292 - \$148) for potable water, \$6,552 (\$8,917 + \$439 - \$1,752 - \$699 - \$352) for non-potable water, and \$4,843 (\$6,520 + \$311 - \$1,242 - \$496 - \$250) for wastewater.

Insurance - Vehicles (656/756)

Aquarina recorded Insurance - Vehicle expense of \$1,728 for potable water, non-potable water, and wastewater. Staff reduced Insurance - Vehicle expense for potable water, non-potable water, and wastewater by \$1,162 to remove the 2015 vehicle insurance premiums associated with the electric-powered golf cart and the dump trailer. Therefore, staff recommends Insurance - Vehicle expense of \$566 (\$1,728 - \$1,162) for potable water, non-potable water, and wastewater.

Insurance - General Liability (657/757)

Aquarina recorded Insurance - General Liability expense of \$2,624 for potable water, non-potable water, and wastewater. Staff reduced potable water and non-potable water by \$10, and wastewater expense by \$11 to remove the 2014 premium and include the 2015 general liability insurance premiums to reflect the actual going-forward cost for Aquarina. Therefore, staff recommends Insurance - General Liability expense of \$2,614 (\$2,624 - \$10) for potable water and non-potable water, and \$2,613 (\$2,624 - \$11) for wastewater.

Insurance - Other Expense (659/759)

Aquarina recorded Insurance - Other expense of \$2,378 for potable water and non-potable water, and \$2,377 for wastewater. Staff reduced Insurance - Other expense by \$2,378 for potable water and non-potable water, and \$2,377 for wastewater, to remove the 2014 employee health insurance premiums that were reclassified to Account 604/704 – Employee Pension and Benefits expense.

Regulatory Commission Expense (667/767)

Aquarina recorded Regulatory Commission expense of \$25 for potable water and non-potable water, and \$50 for wastewater. Staff reduced potable water and non-potable water by \$25 and reduced wastewater expense by \$50 to reclassify the Department of Environmental Regulation

(DEP) permit fees to Accounts 675/775 – Miscellaneous expense. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of the Phase I and final rates in this case to its customers. For these notices, staff has estimated \$581 for postage, \$406 for printing, and \$61 for envelopes. Additionally, Aquarina paid a \$2,000 rate case filing fee. The Utility also provided invoices and estimates for legal fees of \$7,670. This work relates to data requests, reviewing staff's report and recommendation, and attending the agenda conference. Staff reviewed the billing rates and hours for this expense. Staff reduced the estimated attorney's fees by \$1,440 (4 hours at \$360 per hour) in order to split the estimated driving time to attend the Commission Conference with another Utility is representing on the same Commission Conference. Based on the above, staff recommends that the total Regulatory Commission expense is \$9,277, which amortized over four years is \$2,319. This results in a Regulatory Commission expense of \$773 for potable water, non-potable water, and wastewater.

Miscellaneous Expense (675/775)

Aquarina recorded Miscellaneous expense of \$4,239 for potable water, \$4,239 for non-potable water, and \$7,116 for wastewater, respectively. Staff made a net reduction to Miscellaneous expense of \$2,253 for potable water, non-potable water, and wastewater. This resulted from removing \$9,835 currently in these accounts for telephone and internet expenses and including \$2,760 for the going-forward annual cost of one internet and business telephone provider, as well as two cellular telephones used by Aquarina's full-time employees.

Staff also reduced wastewater expense by \$2,872 to reclassify and capitalize to Account 360 – Collection Sewers – Force the cost to refurbish the master lift station pumps. Staff increased this expense for potable water and non-potable water by \$376 and wastewater by \$375, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger. Staff further reduced this expense for potable water, non-potable water, and wastewater by \$970 to remove reimbursements for non-utility meal purchases. Staff further increased this expense by \$34 for potable water, and by \$33 for non-potable water and wastewater to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission expense. Staff therefore recommends a Miscellaneous Expense of \$1,425 ($\$4,239 - \$2,253 + \$376 - \$970 + \34) for potable water, \$1,424 ($\$4,239 - \$2,253 + \$376 - \$970 + \33) for non-potable water, and \$1,429 ($\$7,116 - \$2,253 - \$2,872 + \$375 - \$970 + \33) for wastewater.

Operation and Maintenance Expenses Summary

Based on the above, staff recommends that the O&M expense balances are \$119,658 for potable water, \$190,332 for non-potable water, and \$151,489 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A through 3-E.

Depreciation Expense

Aquarina did not record any Depreciation expense for the test year. Staff recalculated Depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated Depreciation expense of \$45,851 for potable water, \$601 for non-potable water, and \$28,200 for wastewater, for the test year. Staff has decreased Depreciation expense for potable water and increased this expense for non-potable water by \$9,782 to reflect the reclassification of UPIS from the potable to the non-potable water system. Staff also reduced this expense for

potable water and increased it for non-potable by \$3,576 to reflect the imputation of the T&D Mains discussed above.

Staff also increased Depreciation expense for non-potable water and decreased this expense for wastewater by \$12,820 to reflect the reclassification of the non-potable water tank. Staff also decreased Depreciation expense for potable water by \$908 and non-potable by \$2,150 to reflect the retirements associated with CIAC.

Staff has increased Depreciation expense by \$163 for potable water, \$127 for non-potable water, and \$45 for wastewater, to reflect Depreciation expense related to pro forma plant additions. Based on the U&U percentages addressed in Issue 2, staff has decreased Depreciation expense by \$10,950 for potable water, and by \$4,419 for wastewater. Based on the above, Aquarina's Depreciation expense is \$20,797 ($\$45,851 - \$9,782 - \$3,576 - \$908 + \$163 - \$10,950$) for potable water, \$24,757 ($\$601 + \$9,782 + \$3,576 + \$12,820 - \$2,150 + \127) for non-potable water, and \$11,006 ($\$28,200 - \$12,820 + \$45 - \$4,419$) for wastewater.

CIAC Amortization Expense

Aquarina did not record any CIAC Amortization expense for the test year. Based on staff's audit calculations, the Utility CIAC Amortization expenses are \$9,758 for potable water, \$2,684 for non-potable water, and \$15,514 for wastewater. As discussed in Issue 3, staff has reduced these amounts by \$908 for potable water and by \$2,150 for non-potable water to reflect retirements. Therefore, staff recommends CIAC Amortization expense of \$8,849 ($\$9,758 - \908) for potable water, \$534 ($\$2,684 - \$2,150$) for non-potable water, and \$15,514 for wastewater.

Taxes Other Than Income (TOTI)

Aquarina recorded TOTI of \$19,493 for potable water, \$16,413 for non-potable water, and \$19,126 for wastewater. Staff has decreased property taxes by \$118 for potable water, non-potable water, and wastewater to reflect the appropriate test year property taxes. Staff also decreased payroll taxes by \$130 for potable water, \$198 for non-potable water, and \$164 for wastewater to remove the payroll taxes associated with the adjustment to salaries described in Staff's Audit Finding No. 8. Additionally, staff increased payroll taxes by \$2,527 for potable water, \$3,830 for non-potable water, and \$3,178 for wastewater to reflect the payroll taxes associated with the new employees described above.

Further, staff increased regulatory assessment fees (RAFs) by \$108 for potable water, \$62 for non-potable water, and \$134 for wastewater to reflect the 2014 RAFs. In addition, staff increased property taxes by \$91 for potable water, \$43 for non-potable water, and \$38 for wastewater to reflect pro forma property taxes. Staff reduced property taxes by \$980 for potable water, by \$825 for non-potable water, and \$314 for wastewater associated with the recommended non-U&U components. Finally, as discussed in Issues 7 and 9, revenues have been decreased by \$12,593 for potable water, increased by \$148,954 for non-potable water and \$17,842 for wastewater, to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, RAFs should be decreased by \$567 for potable water, and increased by \$6,703 for non-potable water and \$803 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Based on these adjustments, the recommended TOTI

expenses for potable water, non-potable water, and wastewater are \$20,423, \$25,911, and \$22,683, respectively.

Income Tax Expense

Aquarina recorded \$1,442 for Income Tax expense for potable water, non-potable water, and wastewater. Staff reduced this amount to zero based on the staff audit. Aquarina has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is Commission practice to allow no provision for income tax.²³ Therefore, staff recommends no income tax provision.

Operating Expenses Summary

The application of staff's recommended adjustments to Aquarina's test year operating expenses result in operating expenses of \$152,028 for potable water, \$240,466 for non-potable water, and \$169,664 for wastewater. Operating expenses are shown on Schedule Nos. 3-A, 3-B, and 3-C. The related adjustments are shown on Schedule Nos. 3-D, 3-E, and 3-F.

²³ See e.g., Order Nos. PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*; and PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, *In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.*

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

Recommendation: The appropriate revenue requirement is \$158,255 for potable water, resulting in an annual decrease of \$12,593 (or -7.37 percent). The appropriate revenue requirement is \$246,783 for non-potable water, resulting in an annual increase of \$148,954 (or 152.26 percent). (L. Smith)

Staff Analysis: The appropriate revenue requirement for the potable system results in a decrease of \$12,593 (or -7.37 percent). However, staff recommends not changing revenues for the potable system and the disposition of the revenue decrease will be addressed in Issue 10. The calculations are shown in Tables 7-1 and 7-2 for potable water and non-potable water, respectively. Aquarina should be allowed an annual increase of \$148,954 (or 152.26 percent) for non-potable water. This increase will allow the Utility the opportunity to recover its expenses and earn a 3.66 percent return on the investment for the non-potable water system.

Table 7-1

Potable Water Revenue Requirement	
Adjusted Rate Base	\$170,153
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,226
Adjusted O&M Expense	119,658
Depreciation Expense	20,797
CIAC Amortization Expense	(8,849)
Taxes Other Than Income	20,990
Test Year RAFs	<u>(7,688)</u>
Revenue Before RAFs	\$151,134
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$158,255
Less Adjusted Test Year Revenues	<u>170,848</u>
Annual Increase	<u>(\$12,593)</u>
Percent Increase	<u>-7.37%</u>

Table 7-2

Non-Potable Water Revenue Requirement	
Adjusted Rate Base	\$172,587
Rate of Return	<u>x 3.66%</u>
Return on Rate Base	\$6,317
Adjusted O&M Expense	190,332
Depreciation Expense	24,757
CIAC Amortization Expense	(534)
Taxes Other Than Income	19,208
Test Year RAFs	<u>(4,402)</u>
Revenues Before RAFs	\$235,678
RAF Gross-up Factor	<u>x 0.955</u>
Total Revenues	\$246,783
Less Adjusted Test Year Revenues	<u>97,829</u>
Annual Increase	<u>\$148,954</u>
Percent Increase	<u>152.26%</u>

Issue 8: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the wastewater revenue requirement for Aquarina, and, if so, what is the appropriate margin?

Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating wastewater revenue requirement for Aquarina. The margin should be 6.60 percent of O&M expenses. (L. Smith)

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

Although the Utility did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes the Commission should exercise its discretion to employ the operating ratio methodology to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Aquarina's wastewater O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.²⁴ This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses capped at \$10,000. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.²⁵ Recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-15-0535-PAA-WU.²⁶

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

1) Whether the Utility's O&M expenses exceeds rate base. The operating ratio method substitutes O&M expenses for rate base in calculating the amount of return. A utility generally

²⁴ Issued March 13, 1996, in Docket No. 950641-WU, *In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.*

²⁵ Issued February 10, 1997, in Docket No. 960561-SU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

²⁶ Issued November 19, 2015, in Docket No. 140217-WU, *In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.*

would not benefit from the operating ratio method if rate base exceeds O&M expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the Utility has a negative rate base and under traditional rate base regulation, Aquarina would not be entitled to any return on investment. Based on the staff's recommendation, the adjusted wastewater rate base for the test year is (\$2,091), while adjusted wastewater O&M expenses are \$151,489. The Utility's primary risk resides with covering its operating expense.

2) Whether the Utility is expected to become a Class B Utility in the foreseeable future. Pursuant to Rule 25-30.456, F.A.C., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$275,000 or less. Even though Aquarina is a Class B Utility, the recommended wastewater revenue requirement of \$179,663 is well below the threshold level for Class B status (\$200,000 per system).

3) Quality of service and condition of plant. As discussed in Issue 1, staff has recommended that the quality of service is satisfactory.

4) Whether the Utility is developer-owned. Aquarina is not owned by the developer. This Utility was established almost 30 years ago, and there has been no significant growth in years. Staff does not anticipate any significant growth in the foreseeable future.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue in general is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Aquarina operates the wastewater treatment plant. Therefore, there is no concern regarding excluding purchased wastewater costs. Based on staff's review of Aquarina's situation relative to the above criteria, staff recommends that the Utility is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU²⁷, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. In addition, this order suggested a cap of \$10,000. The important question is not what the percentage should be, but what level of operating margin will allow a utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of a utility must be reviewed and considered thoroughly.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for a utility to cover its interest expense.

Second, the use of the operating ratio methodology rests on the contention that the principal risk to a utility resides in operating costs rather than in cost of the plant. The fair return on a small rate base may not adequately compensate a utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, staff believes the margin should adequately compensate the utility owner for the principal risk, which lies with the operating costs.

²⁷ Issued February 10, 1999, in Docket No. 960561-WU, *In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.*

Third, in consideration of Aquarina's capital structure being 99.95 percent long-term debt, with an overall cost of capital of 3.66 percent, staff believes that an operating margin of 6.60 percent, which equates to the cap of \$10,000, is appropriate. Staff believes this would be sufficient to cover debt service obligations associated with regulated operations and provide protection against variability in revenues and expenses.

Conclusion

The above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Aquarina with adequate cash flow to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 6.60 percent of O&M expenses for determining the wastewater revenue requirement.

Issue 9: What is the appropriate wastewater revenue requirement?

Recommendation: The appropriate wastewater revenue requirement is \$179,094, resulting in an annual increase of \$17,273 (or 10.67 percent). (L. Smith)

Staff Analysis: Aquarina should be allowed an annual increase of \$17,842 (or 11.03 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 6.60 percent margin over its wastewater system’s operating and maintenance expenses. The calculations are shown in Table 9-1.

Table 9-1

Wastewater Revenue Requirement	
O&M Expenses	\$151,489
Operating Ratio	<u>x 6.60%</u>
Operating Margin	\$10,000
Adjusted O&M Expense	151,489
Depreciation Expense	11,006
CIAC Amortization Expense	(15,514)
Taxes Other Than Income	21,880
Test Year RAFs	<u>(7,282)</u>
Revenue Before RAFs	\$171,579
RAF Gross-Up Factor	<u>x 0.955</u>
Total Revenues	\$179,663
Less Adjusted Test Year Revenues	<u>161,821</u>
Annual Increase (Decrease)	<u>\$17,842</u>
Percent Increase (Decrease)	<u>11.03%</u>

Issue 10: What are the appropriate rate structures and rates for Aquarina's water and wastewater systems?

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

Staff Analysis: Water Rates (Potable)

Aquarina is located in Brevard County within the St. Johns River Water Management District (SJRWMD). The Utility provides water service to approximately 271 residential customers and 25 general service customers including master-metered developments, clubhouses, and a fire station. Typically, staff evaluates the seasonality of utility customers based on the percentage of bills at zero gallons, which is 13 percent. However, for this Utility, the customers are in residence periodically throughout each month rather than a few months out of the year. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 36 percent. As a result, it appears that the customer base is somewhat seasonal. The average residential water demand is 2,150 gallons per month. The average water demand excluding zero gallon bills is 2,479 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for the residential and general service customers.

As discussed in Issue 7, the potable water system is overearning by 7.37 percent (or \$12,593). To the extent possible, when there are overearnings for a water and wastewater system, staff believes it is appropriate to avoid decreasing water rates by netting the revenues of the systems if the customer bases are similar. Staff believes decreasing the potable water rates undermine conservation efforts. In this case, there is a minimal difference in the potable water and wastewater customer bases. There are 296 potable customers and 311 wastewater customers, which is a difference of 15 customers (approximately 5 percent). Due to the low percentage difference between potable water and wastewater customers, staff believes it is appropriate to net the water system overearnings against the wastewater system increase. This will allow the water rates to remain unchanged rather than decrease. Furthermore, since staff is recommending the rates remain unchanged, a repression adjustment is not appropriate in this case.

Irrigation Rates (Non-Potable)

The Utility provides irrigation service to approximately 107 residential and general service customers including a golf course and master-metered irrigation systems through a non-potable system. Although the customer base is seasonal, the customers irrigate while out of residence. The average non-potable water demand is 97,325 gallons per month. The groundwater is pumped from a dedicated well and piped directly to irrigation customers without treatment. The current

rate structure consists of a gallonage charge only and no base facility charge because the Utility was unable to locate the various meters.²⁸

Staff evaluated whether a gallonage charge only rate structure is appropriate on a going-forward basis. In this case, the Utility was able to locate all irrigation meters. Staff believes that it is appropriate to implement a BFC and uniform gallonage charge for irrigation customers to provide a fixed revenue stream while sending the appropriate pricing signals to target those customers with high levels of consumption. Therefore, staff recommends 30 percent of the non-potable revenues be allocated to the BFC for ratesetting purposes. This will allow lower bills for irrigation and promote the continued use of non-potable water for irrigation purposes.

Wastewater Rates

The Utility provides wastewater service to approximately 269 residential customers and 19 general service customers who also receive water service from Aquarina. The Utility also provides wastewater only service to 23 residential customers who receive their water service from the South Brevard Water Cooperative. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and a gallonage charge with an 8,000 gallon cap. The wastewater-only customers are billed a flat rate, which reflects approximately 2,622 gallons per month of demand. 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.

As discussed earlier, staff recommends netting the potable water system's overearnings against the wastewater system's increase to avoid a decrease in rates. Netting the potable water and wastewater systems' revenues results in an increase of 3.25 percent for the wastewater system. However, a 3.15 percent increase reflects the recommended revenue increase excluding miscellaneous revenue. Due to the low overall increase for wastewater, staff recommends an across-the-board increase of 3.15 to the existing rates.

Summary

Based on the above, staff recommends that the potable water system overearnings be netted against the wastewater system increase. The potable water rate structure and rates should remain unchanged. Staff recommends a BFC and uniform gallonage charge rate structure with 30 percent of the revenues allocated to the BFC for non-potable water. The wastewater rate structure should be an across-the-board increase to the existing rates.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. 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

²⁸Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, *In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.*, p. 45.

approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 11: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S?²⁹

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina 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, L. Smith)

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. This results in a reduction of \$813 for potable water, \$813 for non-potable water, and \$810 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Aquarina 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.

²⁹ Section 367.0816, F.S., was repealed effective July 1, 2016. The Statute was in effect at the time Aquarina filed its staff-assisted rate case, therefore, the Statute applies.

Issue 12: Should Aquarina's miscellaneous service charges be revised?

Recommendation: Yes. Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a \$25 meter box maintenance charge, \$40 meter lock-off charge, and a \$200 emergency call out charge. The Utility provided cost justification in support of its requested charges. Although titled differently by the Utility, staff believes the Utility's proposed charges are consistent with the services provided under its existing miscellaneous service charges as provided in Rule 25-30.460, F.A.C.

Aquarina's current initial connection, normal reconnection, premises visit, and violation reconnection charges were last established on November 27, 1990.³⁰ However, in reviewing the Utility's cost justification for the proposed charges, staff determined that the existing miscellaneous service charges may not adequately recover the cost of the respective service. Staff believes that the cost justification provided for the requested charges is consistent with the information needed to update the Utility's existing miscellaneous service charges. The charges are designed to ensure that as these services are provided by the Utility, the cost burden is placed on the cost causer consistent with Commission practice. The changes and additions to the Utility's miscellaneous service charges are discussed below.

Initial Connection Charge

Currently, the Utility's initial connection charge is \$15 for water and wastewater. The initial connection charge is levied for service initiation at a location where service did not exist previously. The Utility representative makes one trip when performing the service of an initial connection. While the Utility did not specifically request an increase in the initial connection charge, based on labor and transportation to and from the service territory, staff recommends initial connection charges of \$26 and \$32 for normal and after hours, respectively for water and wastewater service. Staff's calculation is shown below in Table 12-1.

³⁰Order No. 23812, issued November 27, 1990, in Docket No. 900168-WS, *In re: Application for a staff-assisted rate case in Brevard County by Aquarina Developments, Inc.*

**Table 12-1
 Initial Connection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1/3hr)	\$18.00
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 10 miles-to/from)	\$5.40
Total	\$26.40	Total	\$32.40

Source: Utility's cost justification documentation.

Normal Reconnection Charge

The Utility's existing normal reconnection charge is \$15 for water and wastewater. Normal reconnection is a charge to be levied for the transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection. A normal reconnection requires two trips, which includes one to turn service on and the other to turn service off.

The Utility requested a \$40 meter lock-off charge. The majority of Aquarina's customer base is seasonal and the Utility encourages the customers to have their meter locked off to avoid any potential excessive water losses when they are not in residence. The Utility indicated that there is a fair amount of water from theft, running toilets, and damaged water heaters. The Utility believes it is a legitimate service to offer and requested a charge of \$25, which includes a premises visit and its existing normal reconnection charge. Subsequent to its original requested charge of \$25, Aquarina revised its requested meter box lock-off charge to \$40, which includes two premises visits of \$10, a normal reconnection charge of \$15, and \$5 to cover the expense of the lock.

Staff believes the Utility could use its normal reconnection charge to achieve the same result without any special designation for meter box lock-off. As stated earlier, a normal reconnection charge includes two trips, which would cover the Utility turning off the service and subsequently turning on the service when the customer returns. Staff does not believe the \$5 lock charge is appropriate. The Utility indicated that the locks will be re-useable. Therefore, staff believes that the lock should be a cost of doing business.

Based on labor and transportation to and from the service territory, staff recommends that the normal reconnection charge should be \$38 and \$47 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-2.

**Table 12-2
 Normal Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Violation Reconnection Charge

The Utility's existing violation reconnection charge is \$15 for water and actual cost for wastewater. The violation reconnection charge is levied prior to reconnection of an existing customer after discontinuance of service for cause. The service performed for violation reconnection requires two trips, which includes one trip to turn off service and a subsequent trip to turn on service once the violation has been remedied. Based on labor and transportation to and from the service territory, staff recommends water violation reconnection charges of \$38 and \$47 for normal and after hours, respectively. Due to the labor intensive nature of a wastewater disconnection and pursuant to Rule 25-30.460, F.A.C., wastewater violation reconnection is and should remain at actual cost. Staff's calculations for water violation reconnection charges are shown below in Table 12-3.

**Table 12-3
 Violation Reconnection Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/4 hr x 2)	\$18.00	Labor (Field) (\$54/hr x 1/4hr x 2)	\$27.00
Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>	Transportation (\$.54/mile x 10 miles-to/from x 2)	<u>\$10.80</u>
Total	\$37.80	Total	\$46.80

Source: Utility's cost justification documentation.

Premises Visit

The Utility's existing premises visit is \$10 for water and wastewater. The premises visit charge is levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility. In addition, the premises visit can be levied when a service representative visits a premises for the purpose of

discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. A premises visit requires one trip.

Aquarina requested a \$200 emergency hours call out charge to cover costs incurred when the Utility owners travel from their home after hours and on holidays at the customer's request. The Utility's proposed charge included two hours of labor for two people and mileage to and from the service area. Staff does not believe that labor should be included for two people. Staff believes the Utility could use its premises visit charge to achieve the same result without any special designation for an emergency call out charge. Staff believes its recommended after hours premises visit charge recovers the appropriate cost incurred for after hours emergency calls. For the after hours calculation, staff included additional labor time and miles since the Utility representative would be traveling from a location other than the Utility's office. Based on labor and transportation to and from the service territory, staff recommends premises visit charges of \$26 and \$99 for normal and after hours, respectively for water and wastewater service. Staff's calculations are shown below in Table 12-4.

**Table 12-4
 Premises Visit Charge Calculation**

Activity	Normal Hours Cost	Activity	After Hours Cost
Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00	Labor (Administrative) (\$36/hr x 1/4hr)	\$9.00
Labor (Field) (\$36/hr x 1/3 hr)	\$12.00	Labor (Field) (\$54/hr x 1.10 hr)	\$59.40
Transportation (\$.54/mile x 10 miles-to/from)	\$5.40	Transportation (\$.54/mile x 28 miles-to/from)	\$30.24
Total	\$26.40	Total	\$98.64

Source: Utility's cost justification documentation.

The Utility requested a \$25 meter box maintenance charge and this charge should not be approved because it is the Utility's responsibility to maintain the customer's meters as provided by Rules 25-30.230 and 25-30.231, F.A.C. Below, in Table 12-5 are staff's recommended miscellaneous service charges.

**Table 12-5
 Summary of Staff's Recommended Miscellaneous Service Charges**

Miscellaneous Service Charges	Water		Wastewater	
	During Hours	After Hours	During Hours	After Hours
Initial Connection Charge	\$27	\$32	\$27	\$32
Normal Reconnection Charge	\$38	\$47	\$38	\$47
Violation Reconnection Charge	\$38	\$47	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of Disconnection)	\$26	\$99	\$26	\$99

Summary

Aquarina's miscellaneous service charges should be revised. The charges should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 13: Should Aquarina’s request for direct debit charge be approved?

Recommendation: Yes. Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges. During the course of this proceeding, the Utility requested a direct debit charge. The Utility provided cost justification in support of the requested charge.

Aquarina requested to implement a direct debit charge. The purpose of the charge is to cover the costs of Aquarina’s bank debiting the bank account of a customer for its utility bill. The Utility mailed response cards to its customers to determine how many would actually use this method of payment and 55 customers provided the information required to use this payment option. For 40 or more debit items, Aquarina’s bank charges a \$10 monthly maintenance charge, \$45 for an automatic clearing house (ACH) Module (monthly service charge), \$12 per file sent (batch), and \$.14 per debit item. Staff believes a direct debit charge is appropriate because it places the cost on the cost causer. Below in Table 13-1, is the calculation of staff’s recommended direct debit charge.

Table 13-1
Direct Debit Charge Calculation

Aquarina Bank Charges	
Monthly Maintenance	\$10.00
ACH Module	\$45.00
Charge Per File	<u>\$12.00</u>
Total Fixed Charges	\$67.00
# of customers per month	55
Per Customer Fixed Charge	\$1.22
Charge Per Debit Sent	<u>\$0.14</u>
Direct Debit Charge	\$1.36

Source: Utility’s cost justification documentation.

Summary

Aquarina’s request for a direct debit charge should be approved. The direct debit charge should be effective on or after the stamped approval date on the tariff pursuant to Rule 25-30.475, F.A.C. In addition, the approved charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 14: Should Aquarina be authorized to collect Non-Sufficient Funds (NSF) charges?

Recommendation: Yes. Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariffs to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Section 367.091, F.S., requires rates, charges, and customer service policies to be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that Aquarina should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:

- 1) \$25, if the face value does not exceed \$50.
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300.
- 3) \$40, if the face value exceeds \$300.
- 4) Or 5 percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with prior Commission decisions.³¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Aquarina should be authorized to collect NSF charges for both systems. Staff recommends that Aquarina revise its tariff sheet to reflect the NSF charges currently set forth in Section 68.065, F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. Furthermore, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

³¹ See e.g., Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, *In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.*; and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*

Issue 15: Should Aquarina’s existing service availability charges be revised, and if so, what are the appropriate charges?

Recommendation: No. The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued. (Bruce)

Staff Analysis: The Utility’s existing service availability charges for the potable water system consist of a \$500 main extension charge, a \$780 plant capacity charge, and a \$150 meter installation charge. The non-potable water system’s existing service availability charges consist of a \$50 main extension charge, \$250 plant capacity charge, and a \$150 meter installation charge. For the wastewater system, the existing service availability charge is a \$635 main extension charge.

Service availability charges are one-time charges applicable to new connections, which allows a customer to pay its pro rata share of the facilities and plant cost. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the Rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility’s facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system or wastewater collection system. The existing contribution levels are 63 percent, 7 percent, and 97 percent for potable water, non-potable water, and wastewater, respectively. Below in Table 15-1, is a summary of the contributions-in-aid-of contribution levels for each system based on the recommended rate base.

**Table 15-1
 Contributions-in- Aid-of-Construction Levels**

	Potable Water	Non-Potable Water	Wastewater
Utility Plant in Service	\$1,300,669	\$1,094,903	\$1,612,043
Accumulated Depreciation	\$1,003,525	\$872,742	\$1,357,193
CIAC	\$337,868	\$35,785	\$597,343
Amortization of CIAC	\$149,343	\$20,111	\$350,109
Contribution Level	63%	7%	97%

The Utility requested that staff evaluate its existing service availability charges, including any appropriate charges for irrigation service for new connections. Aquarina requested its service availability charges be increased to account for growth that may not materialize due to a major development in the Utility’s certificated territory being at an indefinite stalemate. In addition, the

Utility is concern that its existing service availability charges do not reflect current costs of maintaining the plant in today’s economy.

The design and development plans of Aquarina’s certificated territory have changed over time. According to the Utility, various lines have been constructed, connected, interconnected, and abandoned. The Utility requested and staff has recommended approval of pro forma revenue for GIS mapping. The GIS mapping will allow the Utility to delineate the potable, non-potable, and wastewater distribution and collection systems. At that time, staff would be able to determine the appropriate number of equivalent residential connections to use in development of revised service availability charges. Staff believes the existing potable and non-potable service availability charges are sufficient within the guidelines of Rule 25-30.580 F.A.C., and should remain unchanged at this time. However, the wastewater system’s contribution level exceeds the maximum amount of 75 percent pursuant to Rule 25-30.580, F.A.C.; therefore, the Utility’s existing main extension charge for wastewater should be discontinued. Staff notes that once the GIS mapping is completed the Utility can file a service availability application and have its service availability charges evaluated.

Summary

The appropriate service availability charges are the Utility’s existing charges for the potable and non-potable water systems. The wastewater main extension charge should be discontinued.

**Table 15-2
 Current and Recommended Service Availability Charges**

	Current and Recommended		Current and Recommended	
	Potable	Non Potable	Wastewater	
Meter Extension Charge	\$500	\$50	\$635	\$0
Plant Capacity Charge	\$780	\$250	N/A	N/A
Meter Installation Charge	\$150	\$150	N/A	N/A

Issue 16: Should the Commission approve a Phase II increase for pro forma items for Aquarina?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater, which equates to increases of 8.23 percent, 2.18 percent, and 3.34 percent, respectively, over the Phase I revenue requirements. Staff recommends that the potable water rates remain unchanged for Phase II. The Phase II wastewater rates should be designed to produce revenues of \$185,002, excluding miscellaneous revenues.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks or other payment confirmation documentation for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Lewis, L. Smith)

Staff Analysis: As discussed in Issue 3, the Utility has requested recognition of several pro forma plant items in the instant case. Several of the pro forma items either have been or will be completed before implementation of the Phase I rates and, therefore, staff has included these items in the Phase I revenue requirement as reflected in previous issues. In addition, the Utility has additional pro forma items that are to be completed after Phase I rates become effective. Table 16-1 summarizes the Phase II pro forma plant items and estimated cost.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 140175-WU and 140177-WU.³²

Staff's adjustment to the Phase II UPIS balances results in increases of \$13,434 for potable water and \$11,005 for wastewater. Staff reduced accumulated depreciation by \$37,859 for potable water and \$30,431 for wastewater for retirements. Staff also reduced wastewater plant and accumulated depreciation by \$3,784 and \$245, respectively, for non-U&U components. Further,

³² Order Nos. PSC-15-0592-PAA-WU, issued December 30, 2015, in Docket No. 140175-WU, *In re: Application for staff-assisted rate case in Pasco County by Crestridge Utilities, LLC.*; and PSC-15-0588-PAA-WU, issued December 29, 2015, in Docket No. 140177-WU, *In re: Application for staff-assisted rate case in Pasco County by Holiday Gardens Utilities, LLC.*

staff increased the working capital allowance by \$1,221 for potable water, \$640 for non-potable water, and \$640 for wastewater.

Staff adjustments for Phase II include an increase in O&M expenses of \$9,769 for potable water, \$5,117 for non-potable water, and \$5,117 for wastewater. Staff has adjusted depreciation expense to reflect the pro forma additions, retirements, and U&U adjustments resulting in increases of \$610 for potable water and \$436 for wastewater. Staff has increased TOTI by \$208 for potable water and \$170 for wastewater to reflect the increase in property taxes related to pro forma additions. Staff's total adjustment to operating expenses, including additional RAFs, results in increases of \$11,173 for potable water, \$5,360 for non-potable water, and \$5,993 for wastewater. The resulting operating expenses are \$163,201 for potable water, \$245,825 for non-potable water, and \$175,657 for wastewater.

Table 16-1

Phase II Pro Forma Adjustments			
Description	UPIS	Accum Depr.	Depr. Expense
<u>Potable Water</u>			
Reverse Osmosis Skid	\$53,736	(\$2,443)	\$2,443
Retirement	<u>(40,302)</u>	<u>40,302</u>	<u>(1,832)</u>
Total	<u>\$13,434</u>	<u>\$37,859</u>	<u>\$611</u>
<u>Wastewater</u>			
Catwalks at Plant	\$9,703	(\$359)	\$359
Blower	28,716	(1,914)	1,914
Sand Filters	5,603	(311)	311
Retirements	<u>(33,016)</u>	<u>33,016</u>	<u>(1,939)</u>
Total	<u>\$11,005</u>	<u>\$30,431</u>	<u>\$646</u>

The Utility's Phase II revenue requirement should be \$171,277 for potable water, \$252,165 for non-potable water, and \$185,657 for wastewater. These totals represent increases of 8.23 percent, 2.18 percent, and 3.34 percent for potable water, non-potable water, and wastewater, respectively, over the recommended Phase I revenue requirements. As previously mentioned in Issue 10, staff recommends netting the Phase I potable water systems' overearnings and wastewater systems' revenues. The netting of wastewater revenues to potable water revenues avoided a reduction to Phase I potable water rates. Including miscellaneous revenues, the Phase I rates generate 99.7 percent of the Phase II potable water revenue requirement. As a result, the potable water rates should remain unchanged for Phase II. The wastewater rates should be design to generate revenues of \$185,002, excluding miscellaneous revenues. The BFC allocation should remain the same as the test year revenue allocation of 60 percent. The residential gallonage cap

should remain at 8,000 gallons. The general service gallonage charge should continue at 1.2 times the residential gallonage charge consistent with Commission practice.

Phase II rate bases are shown on Schedule Nos. 5-A, 5-B, and 5-C. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirements are shown on Schedule Nos. 7-A, 7-B, and 7-C. The resulting rates are shown on Schedule Nos. 8-A, 8-B, and 8-C.

Implementation of the Phase II rates is conditioned upon Aquarina completing the pro forma items within 12 months of the issuance of a consummating order in this docket. The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified by staff, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Aquarina should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

Issue 17: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$102,802. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 18: Should the Utility be required to notify the Commission 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. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (L. Smith)

Staff Analysis: The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with the Commission's decision. Aquarina should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 19: 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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed, and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Murphy)

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 outstanding Phase I pro forma items have been completed, the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and the Utility has provided staff with proof that the adjustments for all applicable NARUC USOA primary accounts have been made. Also, the docket should remain open to allow staff to verify that the Phase II pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,907,336	(\$457,110)	\$1,450,227
LAND & LAND RIGHTS	62,080	(24,498)	37,582
NON-USED AND USEFUL COMPONENT	0	(73,194)	(73,194)
ACCUMULATED DEPRECIATION	(1,522,797)	451,903	(1,070,894)
CIAC	(483,149)	145,281	(337,868)
AMORTIZATION OF CIAC	276,662	(127,319)	149,343
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,957</u>	<u>14,957</u>
WATER RATE BASE	<u>\$240,132</u>	<u>(\$69,980)</u>	<u>\$170,153</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$22,080	\$923,265	\$945,345
LAND & LAND RIGHTS	0	24,498	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	0	(805,374)	(805,374)
CIAC	0	(35,785)	(35,785)
AMORTIZATION OF CIAC	0	20,111	20,111
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,792</u>	<u>23,792</u>
WATER RATE BASE	<u>\$22,080</u>	<u>\$150,507</u>	<u>\$172,587</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE I			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$2,116,139	(\$504,096)	\$1,612,043
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	0	(62,323)	(62,323)
ACCUMULATED DEPRECIATION	(1,866,188)	508,995	(1,357,193)
CIAC	(603,375)	6,032	(597,343)
AMORTIZATION OF CIAC	299,305	50,804	350,109
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>18,936</u>	<u>18,936</u>
WASTEWATER RATE BASE	<u>(\$20,439)</u>	<u>\$18,348</u>	<u>(\$2,091)</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 ADJUSTMENTS TO RATE BASE PHASE I	SCHEDULE NO. 1-D DOCKET NO. 150010-WS PAGE 1 OF 1		
	WATER-P	NP-WATER	WASTEWATER
UTILITY PLANT IN SERVICE			
1. To reflect the audited plant balances. (AF 1)	\$49,635	\$905	\$7,708
2. To match CIAC adjustments in audit	(90,305)	90,305	0
3. To reflect retirements related to CIAC	(36,324)	(67,162)	0
4. To reflect reclassification from Potable to NP	(234,124)	234,124	0
5. To impute T&D Mains for NP system.	(149,558)	149,558	0
6. To reflect reclassification from Wastewater to NP	0	512,792	(512,792)
7. To reflect the appropriate averaging adjustment.	(2,329)	(31)	(1,436)
8. To reflect the appropriate pro forma additions.	5,896	2,774	2,424
Total	<u>(\$457,110)</u>	<u>\$923,265</u>	<u>(\$504,096)</u>
LAND & LAND RIGHTS			
To reflect appropriate land balances.	<u>(\$24,498)</u>	<u>\$24,498</u>	<u>\$0</u>
NON-USED AND USEFUL COMPONENT			
1. To reflect the appropriate Non-U&U UPIS.	(\$490,147)	(\$199,989)	(\$480,926)
2. To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>416,953</u>	<u>199,989</u>	<u>418,603</u>
Total	<u>(\$73,194)</u>	<u>\$0</u>	<u>(\$62,323)</u>
ACCUMULATED DEPRECIATION			
1. To reflect the appropriate Accumulated Depreciation balances. (AF 5)	(\$10,652)	\$0	(\$18,566)
2. To reflect pro rata Potable/NP split.	10,365	(10,365)	0
3. To match CIAC adjustments in audit	99,758	(99,758)	0
4. To reflect retirements related to CIAC	52,420	86,236	0
5. To reflect reclassification from Potable to NP	202,514	(202,514)	0
6. To reflect reclassification from Wastewater to NP	0	(512,792)	512,792
7. To reflect imputation of T&D Mains for NP system.	67,369	(67,369)	0
8. To reflect the appropriate averaging adjustment.	20,232	265	14,814
9. To reflect the appropriate pro forma additions.	<u>9,898</u>	<u>923</u>	<u>(45)</u>
Total	<u>\$451,903</u>	<u>(\$805,374)</u>	<u>\$508,995</u>
CIAC			
1. To reflect the appropriate CIAC balance. (AF 4)	\$95,372	(\$107,222)	\$0
2. To reflect retirements	36,324	67,162	0
3. To reflect the appropriate CIAC averaging adjustments.	<u>13,585</u>	<u>4,275</u>	<u>6,032</u>
Total	<u>\$145,281</u>	<u>(\$35,785)</u>	<u>\$6,032</u>
AMORTIZATION OF CIAC			
1. To reflect the audited Accumulated Amortization of CIAC balance. (AF 6)	(\$70,242)	\$107,911	\$58,562
2. To reflect retirement of CIAC	(52,420)	(86,236)	0
3. To reflect the appropriate averaging adjustment.	<u>(4,657)</u>	<u>(1,564)</u>	<u>(7,758)</u>
Total	<u>(\$127,319)</u>	<u>\$20,111</u>	<u>\$50,804</u>
WORKING CAPITAL ALLOWANCE			
To reflect 1/8 of test year O & M expenses.	<u>\$14,957</u>	<u>\$23,792</u>	<u>\$18,936</u>

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE - PHASE I							SCHEDULE NO. 2 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>						
TOTAL COMMON EQUITY	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%	3.66%	3.66%	
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL DEBT	\$863,346	(\$416,595)	\$446,751	(\$106,263)	\$340,488	99.95%			
7. CUSTOMER DEPOSITS	<u>193</u>	<u>(32)</u>	<u>161</u>	<u>0</u>	<u>161</u>	<u>0.05%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>\$358,475</u>	<u>\$88,437</u>	<u>\$446,912</u>	<u>(\$106,263)</u>	<u>\$340,649</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$169,239</u>	<u>\$1,609</u>	<u>\$170,848</u>	<u>(\$12,593)</u> -7.37%	<u>\$158,255</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$92,074	\$27,582	\$119,658	\$0	\$119,658
DEPRECIATION EXPENSE	0	20,797	20,797	0	20,797
CIAC AMORTIZATION EXPENSE	0	(8,849)	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	19,493	1,497	20,990	(567)	20,423
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$113,009</u>	<u>\$39,586</u>	<u>\$152,595</u>	<u>(\$567)</u>	<u>\$152,028</u>
OPERATING INCOME/(LOSS)	<u>\$56,230</u>		<u>\$18,253</u>		<u>\$6,226</u>
WATER RATE BASE	<u>\$240,132</u>		<u>\$170,153</u>		<u>\$170,153</u>
RATE OF RETURN	<u>23.42%</u>		<u>10.73%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE I					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
OPERATING REVENUES	<u>\$96,929</u>	<u>\$900</u>	<u>\$97,829</u>	<u>\$148,954</u> 152.26%	<u>\$246,783</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$152,155	\$38,180	\$190,332	\$0	\$190,332
DEPRECIATION EXPENSE	0	24,757	24,757	0	24,757
CIAC AMORTIZATION EXPENSE	0	(534)	(534)	0	(534)
TAXES OTHER THAN INCOME	16,413	2,795	19,208	6,703	25,911
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$170,010</u>	<u>\$63,755</u>	<u>\$233,763</u>	<u>\$6,703</u>	<u>\$240,466</u>
OPERATING INCOME/(LOSS)	<u>(\$73,081)</u>		<u>(\$135,934)</u>		<u>\$6,317</u>
WATER RATE BASE	<u>\$22,080</u>		<u>\$172,587</u>		<u>\$172,587</u>
RATE OF RETURN	<u>-330.99%</u>		<u>-78.76%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.			SCHEDULE NO. 3-C		
TEST YEAR ENDED 12/31/2014			DOCKET NO. 150010-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE I					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$160,261</u>	<u>\$1,560</u>	<u>\$161,821</u>	<u>\$17,842</u> 11.03%	<u>\$179,663</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$126,358	\$25,131	\$151,489	\$0	\$151,489
DEPRECIATION EXPENSE	0	11,006	11,006	0	11,006
CIAC AMORTIZATION EXPENSE	0	(15,514)	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	19,126	2,754	21,880	803	22,683
INCOME TAXES	<u>1,442</u>	<u>(1,442)</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$146,926</u>	<u>\$21,935</u>	<u>\$168,861</u>	<u>\$803</u>	<u>\$169,664</u>
OPERATING INCOME/(LOSS)	<u>\$13,335</u>		<u>(\$7,040)</u>		<u>\$10,000</u>
WASTEWATER O&M EXPENSE	<u>\$126,358</u>		<u>\$151,489</u>		<u>\$151,489</u>
OPERATING MARGIN	<u>10.55%</u>		<u>-4.65%</u>		<u>6.60%</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 1 of 3		
	WATER-P	WATER-NP	WASTEWATER
OPERATING REVENUES			
To reflect appropriate revenues for the systems.	<u>\$1,609</u>	<u>\$900</u>	<u>\$1,560</u>
OPERATION AND MAINTENANCE EXPENSES			
Salaries and Wages - Employees (601/701)			
a. To normalize salary expense to remove payroll for former employees. (AF 8)	(\$1,707)	(\$2,587)	(\$2,147)
b. To remove insurance reimbursement to former employee.	(183)	(278)	(231)
c. To remove unpaid salary accruals from outside the test year.	(4,807)	(7,286)	(6,046)
d. To include maintenance employees	<u>28,663</u>	<u>43,444</u>	<u>36,053</u>
	<u>\$21,966</u>	<u>\$33,294</u>	<u>\$27,629</u>
Employee Pensions and Benefits (604/704)			
a. To reflect the appropriate amount of pensions and benefits. (AF 8)	\$5,670	\$8,594	\$7,132
b. To reflect the increase for new maintenance employees.	<u>5,446</u>	<u>8,254</u>	<u>6,850</u>
Subtotal	<u>\$11,116</u>	<u>\$16,848</u>	<u>\$13,982</u>
Purchased Power (615/715)			
To reflect the correct amount of purchase power expense. (AF 8)	<u>\$357</u>	<u>\$3,609</u>	<u>(\$4,254)</u>
Materials and Supplies (620/720)			
a. To include reimbursement for October expense voucher. (AF8)	\$705	\$1,686	\$1,196
b. To reclassify potable booster pumps. (AF8)	(1,079)	(2,578)	0
c. To remove non-utility purchases. (AF8)	<u>(110)</u>	<u>(263)</u>	<u>(186)</u>
Subtotal	<u>(\$484)</u>	<u>(\$1,155)</u>	<u>\$1,010</u>
Contractual Services - Professional			
To remove and amortize non-recurring accounting fees	<u>(\$533)</u>	<u>(\$533)</u>	<u>(\$533)</u>
Contractual Services - Testing (635/735)			
To remove non-utility testing expenses. (AF 8)	<u>(\$401)</u>	<u>\$0</u>	<u>(\$1,106)</u>
Contractual Services - Other (636/736)			
a. To capitalize non-potable pump that was expensed. (AF 8)	\$0	(\$3,620)	\$0
b. Pump service expense that was not posted to ledger (AF 8)	2,703	720	0
c. To reflect amortization of pro forma repairs.	1,160	36	298
d. To remove meter reading expense.	(783)	(1,872)	(390)
e. To remove and amortize non-recurring repairs.	<u>(183)</u>	<u>(437)</u>	<u>(584)</u>
Subtotal	<u>\$2,897</u>	<u>(\$5,173)</u>	<u>(\$676)</u>
Rental of Building/Property (641/741)			
a. To remove 2014 amount of rental expense for office space. (AF 8)	(\$334)	(\$334)	(\$333)
b. To include 2015 storage building rental expense. (AF 8)	3,000	3,000	3,000
c. To reflect reduction in price per square foot.	<u>(396)</u>	<u>(396)</u>	<u>(396)</u>
Subtotal	<u>\$2,270</u>	<u>\$2,270</u>	<u>\$2,271</u>
Rental of Equipment (642/742)			
a. To remove 2014 amount of equipment rental expense. (AF 8)	(\$7,800)	(\$7,800)	(\$7,800)
b. To include 2015 rental expense. (AF 8)	6,000	6,000	6,000
c. To adjust rental expense.	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,200)</u>
Subtotal	<u>(\$3,000)</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>

AQUARINA UTILITIES, INC.	Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I	Page 2 of 3		
	WATER-P	WATER-NP	WASTEWATER
Transportation Expenses (650/750)			
a. To reflect the correct amount of mileage expenses. (AF 8)	\$183	\$439	\$311
b. To reflect the correct amount of mileage expenses. (AF 8)	(733)	(1,752)	(1,242)
c. To removed repairs to non-utility vehicles. (AF 8)	(292)	(699)	(496)
d. To remove unsupported airline tickets. (AF 8)	(148)	(352)	(250)
Subtotal	<u>(\$989)</u>	<u>(\$2,365)</u>	<u>(\$1,677)</u>
Insurance - Vehicle Expenses (656/756)			
To reflect the appropriate amount of insuranc vehicle expense. (AF 8)	<u>(\$1,162)</u>	<u>(\$1,162)</u>	<u>(\$1,162)</u>
Insurance - General Liability Expenses (657/757)			
To reflect the correct amount of general liability insurance. (AF 8)	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$11)</u>
Insurance - Other Expenses (659/759)			
To reflect appropriate amount of insurance other expenses. (AF 8)	<u>(\$2,378)</u>	<u>(\$2,378)</u>	<u>(\$2,377)</u>
Regulatory Commission Expense (667/767)			
a. To reflect the correct amount of regulatory commission expense. (AF 8)	(\$25)	(\$25)	(\$50)
b. To reflect the appropriate amount of rate case expense.	773	773	773
Subtotal	<u>\$748</u>	<u>\$748</u>	<u>\$723</u>
Miscellaneous Expense (675/775)			
a. To reflect communication costs. (AF 8)	(\$2,253)	(\$2,253)	(\$2,253)
b. To reclassify and capitalize to Account 360.	0	0	(2,872)
c. To reflect reimbursements for October Misc. expenses.	376	376	375
d. To remove non-utility reimbursements.	(970)	(970)	(970)
e. To reflect reclassification for DEP permits .	34	33	33
Subtotal	<u>(\$2,814)</u>	<u>(\$2,815)</u>	<u>(\$5,687)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$27,582</u>	<u>\$38,180</u>	<u>\$25,131</u>
DEPRECIATION EXPENSE			
a. To reflect audited depreciation expense.	\$45,851	\$601	\$28,200
b. To reflect reclassification from Potable to Non-Potable.	(9,782)	9,782	0
c. To reflect retirements imputation of T&D Mains for NP system.	(3,576)	3,576	0
d. To reflect reclassification from Wastewater to Non-Potable	0	12,820	(12,820)
e. To reflect retirements.	(908)	(2,150)	0
f. To reflect pro forma depreciation expense.	163	127	45
g. Non-U&U depreciation expense.	<u>(10,950)</u>	<u>0</u>	<u>(4,419)</u>
Total	<u>\$20,797</u>	<u>\$24,757</u>	<u>\$11,006</u>
AMORTIZATION OF CIAC EXPENSE			
a. To reflect audited amount of CIAC amortization expense.	(\$9,758)	(\$2,684)	(\$15,514)
b. To reflect retirements.	908	2,150	0
Total	<u>(\$8,849)</u>	<u>(\$534)</u>	<u>(\$15,514)</u>

AQUARINA UTILITIES, INC.		Schedule No. 3-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME PHASE I		Page 3 of 3		
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>	
TAXES OTHER THAN INCOME				
a. To reflect the correct amount of property taxes.	(\$118)	(\$118)	(\$118)	
b. To reflect the correct amount of payroll taxes.	(130)	(198)	(164)	
c. To reflect the appropriate amount of payroll taxes for new employees.	2,527	3,830	3,178	
d. To reflect the appropriate amount of regulatory assessment fees. (RAFs).	108	62	134	
e. To reflect pro forma property taxes.	91	43	38	
f. Non-U&U property taxes.	<u>(980)</u>	<u>(825)</u>	<u>(314)</u>	
Total	<u>\$1,497</u>	<u>\$2,795</u>	<u>\$2,754</u>	
INCOME TAX				
To reflect the correct amount of income tax expenses.	<u>(\$1,442)</u>	<u>(\$1,442)</u>	<u>(\$1,442)</u>	

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-E		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$48,832	\$21,966	\$70,798
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	11,116	11,116
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,180	357	3,537
(616) FUEL FOR POWER PRODUCTION	74	0	74
(618) CHEMICALS	1,564	0	1,564
(620) MATERIALS AND SUPPLIES	6,424	(484)	5,941
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	669	(401)	268
(636) CONTRACTUAL SERVICES - OTHER	2,737	2,897	5,634
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	3,731	(989)	2,742
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,814)</u>	<u>1,425</u>
Total	<u>\$92,074</u>	<u>\$27,583</u>	<u>\$119,658</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-F		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF NON-POTABLE WATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$74,014	\$33,294	\$107,308
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	16,848	16,848
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	32,150	3,609	35,759
(616) FUEL FOR POWER PRODUCTION	750	0	750
(618) CHEMICALS	48	0	48
(620) MATERIALS AND SUPPLIES	4,873	(1,155)	3,717
(632) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	6,541	(5,173)	1,368
(640) RENTS	0	0	0
(641) RENTAL OF BUILDING/PROPERTY	334	2,270	2,604
(642) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	8,917	(2,365)	6,552
(656) INSURANCE - VEHICLE	1,728	(1,162)	566
(657) INSURANCE - GENERAL LIABILITY	2,624	(10)	2,614
(659) INSURANCE - OTHER	2,378	(2,378)	0
(667) REGULATORY COMMISSION EXPENSE	25	748	773
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>4,239</u>	<u>(2,815)</u>	<u>1,424</u>
Total	<u>\$152,155</u>	<u>\$38,179</u>	<u>\$190,332</u>

AQUARINA UTILITIES, INC.	SCHEDULE NO. 3-G		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE PHASE I			
	TOTAL PER UTILITY*	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$61,423	\$27,629	\$89,052
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	13,982	13,982
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	17,665	(4,254)	13,411
(716) FUEL FOR POWER PRODUCTION	412	0	412
(718) CHEMICALS	1,289	0	1,289
(720) MATERIALS AND SUPPLIES	6,023	1,010	7,033
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(732) CONTRACTUAL SERVICES - PROFESSIONAL	3,807	(533)	3,274
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(734) CONTRACTUAL SERVICES - MANAGEMENT FEES	1,930	0	1,930
(735) CONTRACTUAL SERVICES - TESTING	3,107	(1,106)	2,001
(736) CONTRACTUAL SERVICES - OTHER	2,154	(676)	1,478
(741) RENTAL OF BUILDING/PROPERTY	333	2,271	2,604
(742) RENTAL OF EQUIPMENT	7,800	(3,000)	4,800
(750) TRANSPORTATION EXPENSE	6,520	(1,677)	4,843
(756) INSURANCE - VEHICLE	1,728	(1,162)	566
(757) INSURANCE - GENERAL LIABILITY	2,624	(11)	2,613
(759) INSURANCE OTHER	2,377	(2,377)	(0)
(767) REGULATORY COMMISSION EXPENSES	50	723	773
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSE	<u>7,116</u>	<u>(5,687)</u>	<u>1,429</u>
TOTAL O&M EXPENSES	<u>\$126,358</u>	<u>\$25,131</u>	<u>\$151,489</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	\$0.10
3/4"	\$28.74	\$28.74	\$0.15
1"	\$47.90	\$47.90	\$0.25
1-1/2"	\$95.79	\$95.79	\$0.50
2"	\$153.27	\$153.27	\$0.80
3"	\$306.55	\$306.55	\$1.61
4"	\$478.96	\$478.96	\$2.52
6"	\$957.93	\$957.93	\$5.03
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	\$0.04
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"		\$16.90	\$0.06
3/4"		\$25.35	\$0.08
1"		\$42.25	\$0.14
1-1/2"		\$84.50	\$0.28
2"		\$135.20	\$0.45
3"		\$270.40	\$0.89
4"		\$422.50	\$1.40
6"		\$845.00	\$2.79
Charge per 1,000 gallons - Irrigation Service	\$0.78	\$1.38	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I water rates will remain at the current rates.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE I)			
	RATES AT TIME OF FILING	STAFF RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.13	\$22.83	\$0.11
8,000 gallon cap	\$4.79	\$4.94	
Flat Rate Service	\$34.69	\$35.78	\$0.18
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.13	\$22.83	\$0.11
3/4"	\$33.16	\$34.25	\$0.17
1"	\$55.28	\$57.08	\$0.28
1-1/2"	\$110.56	\$114.15	\$0.56
2"	\$176.90	\$182.64	\$0.90
3"	\$353.81	\$365.28	\$1.79
4"	\$552.83	\$570.75	\$2.80
6"	\$1,105.67	\$1,141.50	\$5.60
Charge per 1,000 gallons - General Service	\$5.76	\$5.94	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$31.71	\$32.71	
6,000 Gallons	\$50.87	\$52.47	
8,000 Gallons	\$60.45	\$62.35	

*Phase I wastewater rates will remain at the current rates.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF POTABLE WATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF	BALANCE
		ADJUSTMENTS TO UTIL. BAL.	PER STAFF
UTILITY PLANT IN SERVICE	\$1,450,227	\$13,434	\$1,463,661
LAND & LAND RIGHTS	37,582	0	37,582
NON-USED AND USEFUL COMPONENT	(73,194)	0	(73,194)
ACCUMULATED DEPRECIATION	(1,070,894)	37,859	(1,033,035)
CIAC	(337,868)	0	(337,868)
AMORTIZATION OF CIAC	149,343	0	149,343
WORKING CAPITAL ALLOWANCE	<u>14,957</u>	<u>1,221</u>	<u>16,178</u>
WATER RATE BASE	<u>\$170,153</u>	<u>\$52,514</u>	<u>\$222,667</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-B	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF NON-POTABLE WATER RATE BASE - PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$945,345	\$0	\$945,345
LAND & LAND RIGHTS	24,498	0	24,498
NON-USED AND USEFUL COMPONENT	0	0	0
ACCUMULATED DEPRECIATION	(805,374)	0	(805,374)
CIAC	(35,785)	0	(35,785)
AMORTIZATION OF CIAC	20,111	0	20,111
WORKING CAPITAL ALLOWANCE	<u>23,792</u>	<u>640</u>	<u>24,432</u>
WATER RATE BASE	<u>\$172,587</u>	<u>\$640</u>	<u>\$173,227</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-C	
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS	
SCHEDULE OF WASTEWATER RATE BASE PHASE II			
DESCRIPTION	PHASE I BALANCE	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$1,612,043	\$11,005	\$1,623,048
LAND & LAND RIGHTS	33,680	0	33,680
NON-USED AND USEFUL COMPONENT	(62,323)	(3,538)	(65,861)
ACCUMULATED DEPRECIATION	(1,357,193)	30,431	(1,326,762)
CIAC	(597,343)	0	(597,343)
AMORTIZATION OF CIAC	350,109	0	350,109
WORKING CAPITAL ALLOWANCE	<u>18,936</u>	<u>640</u>	<u>19,576</u>
WASTEWATER RATE BASE	<u>(\$2,091)</u>	<u>\$38,538</u>	<u>\$36,447</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 5-D		
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS		
ADJUSTMENTS TO RATE BASE				
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>				
To reflect the appropriate pro forma additions.	<u>\$13,434</u>	<u>\$0</u>	<u>\$11,005</u>	
<u>NON-USED AND USEFUL COMPONENT</u>				
To reflect the appropriate Non-U&U UPIS.	\$0	\$0	(\$3,784)	
To reflect the appropriate Non-U&U Accumulated Depreciation.	<u>0</u>	<u>0</u>	<u>245</u>	
Total	<u>\$0</u>	<u>\$0</u>	<u>(\$3,538)</u>	
<u>ACCUMULATED DEPRECIATION</u>				
To reflect the appropriate pro forma additions.	<u>\$37,859</u>	<u>\$0</u>	<u>\$30,431</u>	
<u>WORKING CAPITAL ALLOWANCE</u>				
To reflect 1/8 of test year O & M expenses.	<u>\$1,221</u>	<u>\$640</u>	<u>\$640</u>	

AQUARINA UTILITIES, INC. TEST YEAR ENDED 12/31/2014 SCHEDULE OF CAPITAL STRUCTURE- PHASE II							SCHEDULE NO. 6 DOCKET NO. 150010-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	WEIGHTED COST	
1. COMMON STOCK	\$0	\$0	\$0						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>(505,064)</u>	<u>505,064</u>	<u>0</u>				11.16%		
TOTAL	<u>(\$505,064)</u>	<u>\$505,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>11.16%</u>	<u>0.00%</u>	
5. LONG-TERM DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	3.66%	3.66%	
6. SHORT-TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
TOTAL DEBT	\$446,751	\$0	\$446,751	(\$7,285)	\$439,466	99.96%	0.00%	0.00%	
7. CUSTOMER DEPOSITS	161	0	161	0	161	<u>0.04%</u>	<u>2.00%</u>	<u>0.00%</u>	
8. TOTAL	<u>(\$58,152)</u>	<u>\$505,064</u>	<u>\$446,912</u>	<u>(\$7,285)</u>	<u>\$439,627</u>	<u>100.00%</u>		<u>3.66%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>3.66%</u>	<u>3.66%</u>		

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-A			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$158,255</u>	<u>\$0</u>	<u>\$158,255</u>	<u>\$13,022</u> 8.23%	<u>\$171,277</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$119,658	\$9,769	\$129,427	\$0	\$129,427
DEPRECIATION (NET)	20,797	610	21,407	0	21,407
AMORTIZATION OF CIAC	(8,849)	0	(8,849)	0	(8,849)
TAXES OTHER THAN INCOME	20,423	208	20,631	586	21,217
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$152,028</u>	<u>\$10,587</u>	<u>\$162,615</u>	<u>\$586</u>	<u>\$163,201</u>
OPERATING INCOME/(LOSS)	<u>\$6,226</u>		<u>(\$4,361)</u>		<u>\$8,075</u>
WATER RATE BASE	<u>\$170,153</u>		<u>\$222,667</u>		<u>\$222,667</u>
RATE OF RETURN	<u>3.66%</u>		<u>-1.96%</u>		<u>3.63%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-B			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF NON-POTABLE WATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$246,783</u>	<u>\$0</u>	<u>\$246,783</u>	<u>\$5,382</u> 2.18%	<u>\$252,165</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$190,332	\$5,117	\$195,450	\$0	\$195,450
DEPRECIATION (NET)	24,757	0	24,757	0	24,757
AMORTIZATION OF CIAC	(534)	0	(534)	0	(534)
TAXES OTHER THAN INCOME	25,911	0	25,911	242	26,153
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$240,466</u>	<u>\$5,117</u>	<u>\$245,583</u>	<u>\$242</u>	<u>\$245,825</u>
OPERATING INCOME/(LOSS)	<u>\$6,317</u>		<u>\$1,200</u>		<u>\$6,340</u>
WATER RATE BASE	<u>\$172,587</u>		<u>\$173,227</u>		<u>\$173,227</u>
RATE OF RETURN	<u>3.66%</u>		<u>0.69%</u>		<u>3.66%</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 7-C			
TEST YEAR ENDED 12/31/2014		DOCKET NO. 150010-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME PHASE II					
	PHASE I	STAFF ADJS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$179,663</u>	<u>\$0</u>	<u>\$179,663</u>	<u>\$5,994</u> 3.34%	<u>\$185,657</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	\$151,489	\$5,117	\$156,607	\$0	\$156,607
DEPRECIATION EXPENSE	11,006	436	11,442	0	11,442
AMORTIZATION OF CIAC	(15,514)	0	(15,514)	0	(15,514)
TAXES OTHER THAN INCOME	22,683	170	22,853	270	23,123
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$169,664</u>	<u>\$5,724</u>	<u>\$175,388</u>	<u>\$270</u>	<u>\$175,657</u>
OPERATING INCOME/(LOSS)	<u>\$9,999</u>		<u>\$4,275</u>		<u>\$10,000</u>
WASTEWATER OPERATING EXPENSES	<u>\$151,489</u>		<u>\$156,607</u>		<u>\$156,607</u>
OPERATING MARGIN	<u>6.60%</u>		<u>2.73%</u>		<u>6.39%</u>

AQUARINA UTILITIES, INC.	Schedule No. 7-D		
TEST YEAR ENDED 12/31/2014	DOCKET NO. 150010-WS		
ADJUSTMENTS TO OPERATING INCOME			
	<u>WATER-P</u>	<u>WATER-NP</u>	<u>WASTEWATER</u>
OPERATION AND MAINTENANCE EXPENSES			
Contractual Services - Professional (632/732) RO Service Contract.	<u>\$4,652</u>	<u>\$0</u>	<u>\$0</u>
Contractual Services - Other (636/736) To reflect amortization of GIS Mapping.	<u>\$5,117</u>	<u>\$5,117</u>	<u>\$5,117</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$9,769</u>	<u>\$5,117</u>	<u>\$5,117</u>
DEPRECIATION EXPENSE			
a. To reflect pro forma depreciation expense.	\$610	\$0	\$646
b. To reflect Non-U&U depreciation expense.	<u>0</u>	<u>0</u>	<u>(210)</u>
Total	<u>\$610</u>	<u>\$0</u>	<u>\$436</u>
TAXES OTHER THAN INCOME			
To reflect pro forma property taxes.	<u>\$208</u>	<u>\$0</u>	<u>\$170</u>

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-A	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$19.16	\$19.16	
3/4"	\$28.74	\$28.74	
1"	\$47.90	\$47.90	
1-1/2"	\$95.79	\$95.79	
2"	\$153.27	\$153.27	
3"	\$306.55	\$306.55	
4"	\$478.96	\$478.96	
6"	\$957.93	\$957.93	
Charge per 1,000 gallons - Residential and General Service	\$6.95	\$6.95	
<u>Irrigation Service - Non-Potable</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$16.90	\$17.26	
3/4"	\$25.35	\$25.89	
1"	\$42.25	\$43.15	
1-1/2"	\$84.50	\$86.30	
2"	\$135.20	\$138.08	
3"	\$270.40	\$276.16	
4"	\$422.50	\$431.50	
6"	\$845.00	\$863.00	
Charge per 1,000 gallons - Irrigation Service	\$1.38	\$1.41	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$33.06	\$33.06	
6,000 Gallons	\$60.86	\$60.86	
8,000 Gallons	\$74.76	\$74.76	

*Phase I & II water rates will remain unchanged.

AQUARINA UTILITIES, INC.		SCHEDULE NO. 8-B	
TEST YEAR ENDED SEPTEMBER 30, 2014		DOCKET NO. 150010-WS	
MONTHLY WASTEWATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	
<u>Residential</u>			
Base Facility Charge - All Meter Sizes			
Charge Per 1,000 gallons	\$22.83	\$25.05	
8,000 gallon cap	\$4.94	\$5.68	
Flat Rate Service	\$35.78	\$37.32	
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$22.83	\$25.05	
3/4"	\$34.25	\$37.58	
1"	\$57.08	\$62.63	
1-1/2"	\$114.15	\$125.25	
2"	\$182.64	\$200.40	
3"	\$365.28	\$400.80	
4"	\$570.75	\$626.25	
6"	\$1,141.50	\$1,252.50	
Charge per 1,000 gallons - General Service	\$5.94	\$6.81	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$32.71	\$36.41	
6,000 Gallons	\$52.47	\$59.13	
8,000 Gallons	\$62.35	\$70.49	

	Cost Recovery Allocation			Fixed Allocations		Variable Allocations	
	Common Costs	Fixed	Variable	Potable - 50%	NP - 50%	Potable - 9%	NP - 91%
(601) SALARIES AND WAGES - EMPLOYEES	\$122,846	75.00%	25.00%	\$46,067	\$46,067	\$2,764	\$27,947
(604) EMPLOYEE PENSIONS AND BENEFITS	0	75.00%	25.00%	\$0	\$0	\$0	\$0
(615) PURCHASED POWER	35,330	0.00%	100.00%	\$0	\$0	\$3,180	\$32,150
(616) FUEL FOR POWER PRODUCTION	824	0.00%	100.00%	\$0	\$0	\$74	\$750
(618) CHEMICALS	0	0.00%	100.00%	\$0	\$0	\$0	\$0
(620) MATERIALS AND SUPPLIES	6,570	50.00%	50.00%	\$1,642	\$1,642	\$296	\$2,989
(632) CONTRACTUAL SERVICES - PROFESSIONAL	7,613	100.00%	0.00%	\$3,807	\$3,807	\$0	\$0
(634) CONTRACTUAL SERVICES - MANAGEMENT FEES	3,860	100.00%	0.00%	\$1,930	\$1,930	\$0	\$0
(635) CONTRACTUAL SERVICES - TESTING	0	50.00%	50.00%	\$0	\$0	\$0	\$0
(636) CONTRACTUAL SERVICES - OTHER	9,278	50.00%	50.00%	\$2,320	\$2,320	\$418	\$4,221
(641) RENTAL OF BUILDING/PROPERTY	667	100.00%	0.00%	\$334	\$334	\$0	\$0
(642) RENTAL OF EQUIPMENT	15,600	100.00%	0.00%	\$7,800	\$7,800	\$0	\$0
(650) TRANSPORTATION EXPENSE	12,648	50.00%	50.00%	\$3,162	\$3,162	\$569	\$5,755
(656) INSURANCE - VEHICLE	3,456	100.00%	0.00%	\$1,728	\$1,728	\$0	\$0
(657) INSURANCE - GENERAL LIABILITY	5,247	100.00%	0.00%	\$2,624	\$2,624	\$0	\$0
(659) INSURANCE - OTHER	4,755	100.00%	0.00%	\$2,378	\$2,378	\$0	\$0
(667) REGULATORY COMMISSION EXPENSE	50	100.00%	0.00%	\$25	\$25	\$0	\$0
(675) MISCELLANEOUS EXPENSE	8,477	100.00%	0.00%	\$4,239	\$4,239	\$0	\$0
	<u>\$237,221</u>			<u>\$78,054</u>	<u>\$78,054</u>	<u>\$7,301</u>	<u>\$73,812</u>

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts) *MT*
Division of Accounting and Finance (Frank, Norris) *DF*
Division of Economics (Johnson) *ALM*
Office of the General Counsel (Janjic) *KJ* *man for JSC*

RE: Docket No. 150012-WU – Application for transfer of Certificate 390-W from County-Wide Utility Co., Inc. to Southwest Ocala Utility, Inc. in Marion County.

AGENDA: 10/11/16 – Regular Agenda – Proposed Agency Action for Issues 2 and 3 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On January 2, 2015, County-Wide Utility Co., Inc. (County-Wide or Seller) filed an application for the transfer of Certificate No. 390-W to Southwest Ocala Utility, Inc. (SOU, Utility, or Buyer) in Marion County. County-Wide is a Class C Utility which only provides water service. The service area is located in the St. Johns River Water Management District (SJRWMD), and is not in a water use caution area. According to County-Wide's 2014 Annual Report, the Utility serves 539 residential customers, three general service customers, and had total revenues of \$139,624.

Docket No. 150012-WU
Date: September 29, 2016

Certificate No. 390-W was originally granted in 1983 under the name of Bahia Oaks, Inc. d/b/a County-Wide Utility Company, Inc.¹ In 1997, the Commission extended County-Wide's territory to include Units Three, Four, and Five of the Bahia Oaks Subdivision.² Water rates for the Utility were last approved in a 2005 staff assisted rate case (the 2005 SARC.)³

In order to address additional concerns regarding the Utility, staff deferred this item from the May 5, 2016 Agenda Conference. Staff held an additional informal conference with the parties on May 17, 2016, to allow the Utility to more fully state its position for staff's due consideration.

This revised recommendation addresses the transfer of County-Wide's water system under Certificate No. 390-W, the net book value of the water system at the time of transfer, and whether an acquisition adjustment should be approved. The Commission has jurisdiction pursuant to Section 367.071, Florida Statutes (F.S.).

¹Order No. 11868, issued April 21, 1983, in Docket No. 810369-WU, *In re: Application of Bahia Oaks, Inc. d/b/a County-Wide Utility Company, Inc. for a certificate to operate a water utility in Marion County.*

²Order No. PSC-97-0578-FOF-WU, issued May 20, 1997, in Docket No. 970085-WU, *In re: Application for amendment of Certificate No. 390-W to extend service territory to include unit numbers 3, 4, and 5 of Bahia Oaks Subdivision in Marion County by Countywide Utility Company.*

³Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, *In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.*

Discussion of Issues

Issue 1: Should the Commission approve the transfer of County-Wide Utility Co., Inc.'s water system and Certificate No. 390-W to Southwest Ocala Utility, Inc.?

Recommendation: Yes. The transfer of County-Wide's water system and the transfer of Certificate No. 390-W to SOU is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as SOU's certificate and should be retained by the Utility. 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, Florida Administrative Code (F.A.C.). SOU should be responsible for filing the Utility's annual reports and paying regulatory assessment fees for 2015 and all future years. (M. Watts, Frank, Johnson)

Staff Analysis: On January 2, 2015, County-Wide filed an application for approval of the transfer of its water system and Certificate No. 390-W to SOU. The application is in compliance with the governing Statute, Section 367.071, F.S., and Administrative Rules concerning applications for transfer of certificates. However, as discussed below, there is disagreement between staff and the Utility over the appropriate purchase price.

Noticing, Territory, and Land Ownership

The application contains 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 application contains a description of the Utility's water service territory, which is appended to this recommendation as Attachment A. As the Utility is a reseller of bulk water purchased from the City of Ocala, it has no water treatment facilities. Therefore, no proof of land ownership pursuant to Rule 25-30.037(2)(s), F.A.C., is required.

Purchase Agreement and Financing

Pursuant to Rules 25-30.037(2)(i) and (j), F.A.C., the application must contain a statement regarding financing and a copy of the Purchase Agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. According to the application, Dirk and Donna Leeward own 100 percent of Brick City Management, LLC (BCM) which manages and owns 100 percent of Southwest Ocala Utility, Inc. (SOU). According to the application and subsequently filed support documents, on July 19, 2012, Mr. Leeward purchased, at a discount, an outstanding note from BBVA Compass Bank (Compass Bank) that County-Wide owed to Compass Bank. The note was comprised of principal, accrued interest, costs, and fees totaling \$1,067,747. The amount Mr. Leeward paid for the note is unknown. After purchasing the note, Mr. Leeward foreclosed on County-Wide on March 4, 2013. On April 8, 2013, Mr. Leeward acquired the Utility assets at a public foreclosure auction for a total of \$301, which was comprised of the winning bid amount and associated documentary stamps. On January 1, 2014, the assets were transferred to SOU.

Staff believes that the amount paid to Compass Bank by Mr. Leeward for the outstanding note should be included in determining the purchase price of the Utility. Staff made several attempts to obtain the purchase price of the note, including stating that the information could be filed under a confidential request, but the Buyer did not provide the requested information.

On November 19, 2015, the Buyer submitted a letter outlining its concerns with staff's position on the purchase price, net book value (NBV), and application of an acquisition adjustment. In the letter, it states that the Buyer is unable to provide information regarding the amount paid to acquire the mortgage note from the bank because there is a non-disclosure and confidentiality agreement attached to the transaction between the Buyer and Compass Bank. Furthermore, the Buyer believes that the discounted amount paid for the mortgage note is irrelevant to the purchase price. Instead, the Buyer argues that staff should consider the full amount of the outstanding note as the purchase price based upon a ruling by a Marion County Circuit Court that established that a note, valued at approximately \$1,007,000, was relinquished for County-Wide's assets in the Summary Final Judgment of Foreclosure. As a result, the Buyer claims that this value established by the Court equates to the purchase price and that the Commission cannot or should not disregard the Court Order. However, the assets were not acquired when Mr. Leeward foreclosed on County-Wide. As stated above, the assets were acquired at the foreclosure auction. As a result, staff believes the foreclosure auction is the final transaction which led to the acquisition of the assets and that the amount of the final judgment is irrelevant.

Staff recognizes that in addition to the bid amount and associated fees, Mr. Leeward paid an undisclosed amount for the note which was necessary in order to obtain the assets. Staff believes that for this specific case it is appropriate to consider all compensation paid to acquire the assets, which would include the amount actually paid for the mortgage note. In addition, staff does not believe that it is appropriate to consider the entire amount of the \$1,007,000 mortgage note because it does not reflect the actual amount paid to acquire the assets. If staff were to consider the entire amount of the note for the purchase price, the Buyer would be earning a return on an amount greater than what was truly invested in the assets. Because staff is unable to determine any amount paid for the mortgage note as additional compensation paid to acquire the assets, only the money paid as a result of the foreclosure auction can be considered as the purchase price. Staff notes that the primary purpose of an acquisition adjustment is to preserve the integrity of NBV by discouraging deliberately high purchase prices during transfers which would ultimately inflate the value of the assets. Staff addresses the impact of the Buyer's non-disclosure of this information on the purchase price and resulting acquisition adjustment in Issue 3.

In light of the above, staff has calculated the resulting purchase price to be \$227, which is the bid amount of \$101, and documentary stamps of \$200 less the value of the unregulated wastewater system that was included in the auctioned property. Staff has allocated \$74 to the unregulated wastewater system based on the Utility's suggested allocation of the regulated and unregulated assets that was provided in response to deficiencies to its transfer application.

According to the application, there are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, or leases of County-Wide that must be disposed of with regard to the transfer.

Facility Description and Compliance

SOU's water system is a consecutive system composed of water mains, as listed in Table 1-1 below, and nine fire hydrants. A consecutive system provides treated water purchased from another entity. Therefore, the City of Ocala is responsible for ensuring the water meets primary and secondary water quality standards. On November 13, 2013, the Florida Department of Environmental Protection (DEP) conducted a Sanitary Survey and found the Utility to be in compliance with its rules and regulations.

Table 1-1
Southwest Ocala Utility, Inc. Water Mains

Material	Diameter Pipe (inches)	Length (linear feet)
PVC	1	100
PVC	2	5,630
PVC	2 1/2	4,300
PVC	4	4,360
PVC	6	750
PVC	8	750
PVC	12	100

Source: County-Wide Utility Co., Inc. 2014 Annual Report

Technical and Financial Ability

Pursuant to Rules 25-30.037(1)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the applicant to provide service to the proposed service area. According to the application, Mr. Leeward has been the general manager of County-Wide since 1986 and has extensive knowledge of the operations and management of the system. As referenced in the transfer application, SOU will fulfill the commitments, obligations and representations of the Seller with regards to utility matters.

Staff reviewed the financial statements of BCM, the sole manager and owner of SOU. According to the application, BCM has provided working capital funding to the Utility and will ensure the availability of any necessary funds for future capital needs. Based on the above, SOU 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 a staff-assisted rate case in 2007.⁴ The rates were subsequently amended to reflect a 4-year rate reduction required by Section 367.0816, F.S., in 2011, and numerous price indexes. The Utility's existing rates 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

⁴Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, *In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.*

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.

Regulatory Assessment Fees (RAFs) and Annual Reports

Staff has verified that the Utility has filed annual reports and RAFs through December 31, 2014. However, while 2015 RAFs have been paid, the 2015 Annual Report has not been filed. SOU will be responsible for filing the Utility's annual reports and paying RAFs for all future years.

Conclusion

The transfer of County-Wide's water system and the transfer of Certificate No. 390-W to SOU is in the public interest and should be approved effective the date of the Commission's vote. The resultant order should serve as SOU's certificate and should be retained by the Utility. 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. SOU should be responsible for filing the Utility's annual reports and paying RAFs for 2015 and all future years.

Issue 2: What is the appropriate net book value for the SOU water system for transfer purposes?

Recommendation: The net book value of the water system for transfer purposes is \$79,051, as of January 1, 2014. Within 90 days of the date of the final order, SOU should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in SOU's 2015 Annual Report when filed. Specifically, the Utility should confirm that the adjustments to all applicable National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) primary accounts as shown on Schedule No. 2, Page 3 of 3, have been made to SOU's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Frank, M. Watts)

Staff Analysis: Rate base was last established for the Utility as of December 31, 2005, in its 2005 SARC.⁵ The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. The Utility's NBV has been updated to reflect balances as of January 1, 2014. Staff's recommended NBV, as described below, is shown on Schedule No. 2.

Utility Plant in Service (UPIS)

The Utility's general ledger reflected a UPIS balance of \$219,537, as of January 1, 2014. Staff reviewed UPIS additions since the last rate case and as a result has increased UPIS by \$7,177.

The Utility had retired its wells and water treatment plant, and interconnected to the City of Ocala on October 29, 2005, which was prior to the date it filed its 2005 SARC (November 10, 2005).⁶ After extensive investigation, the Commission found that the retired system would have been sufficient to continue to serve the existing customers, and the reason the Utility interconnected with the City of Ocala was to be able to serve anticipated development. Therefore, the interconnection with the City of Ocala was disallowed from rate base during the Utility's last rate case as imprudent since it was not deemed necessary to serve the Utility's current (at the time) customers. Staff believes that it is appropriate in the instant docket to continue to exclude the interconnection from rate base, consistent with Order No. PSC-07-0604-PAA-WU.⁷ However, since the interconnection is now the only source of water to supply all current customers, it should be considered in future rate proceedings.

Staff recommends UPIS should be increased by \$7,177 to reflect a UPIS balance of \$226,714 as of January 1, 2014.

⁵Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, *In re: Application for a staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.*

⁶Document No. 10900-05, filed on November 10, 2005, in Docket No. 050862-WU, *In re: Application for a staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.*

⁷Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, *In re: Application for a staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.*

Land

The Utility's general ledger reflected a land balance of \$2,815, as of January 1, 2014. In Order No. PSC-07-0604-PAA-WU the Commission established the value of the land to be \$2,815. There have been no additions to land purchased since that order was issued. Therefore, staff recommends land of \$2,815, as of January 1, 2014.

Accumulated Depreciation

The Utility's general ledger reflected an accumulated depreciation balance of \$93,858, as of January 1, 2014. Staff calculated the appropriate accumulated depreciation balance to be \$93,655. As a result, accumulated depreciation should be decreased by \$203.

CIAC

As of January 1, 2014, the Utility's general ledger reflected a CIAC balance of \$87,008; and an accumulated amortization of CIAC balance of \$40,982. Staff increased CIAC by \$10,839 based on audited receipts since the Commission approved beginning balances from its last rate case. Using a composite rate, staff also calculated and increased accumulated amortization of CIAC by \$42. Therefore, staff recommends a CIAC balance of \$97,847 and an accumulated amortization of CIAC balance of \$41,024, as of January 1, 2014.

Net Book Value

The Utility's general ledger reflected a NBV of \$82,468. Based on the adjustments described above, staff recommends that the NBV for the Utility's water system, as of January 1, 2014, is \$79,051 (\$82,468 - \$3,417). Staff's recommended NBV and the NARUC USOA balances for UPIS and accumulated depreciation as of January 1, 2014, are shown on Schedule No. 2, page 3 of 3.

Conclusion

Based on the above, staff recommends that the NBV of the water system for transfer purposes is \$79,051, as of January 1, 2014. SOU should be required to notify the Commission in writing, that it has adjusted its books in accordance with the Commission's decision. Specifically the Utility should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts as shown on Schedule No. 2, Page 3 of 3, have been made to SOU's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. The adjustments should be reflected in SOU's 2015 Annual Report when filed.

Issue 3: Should an acquisition adjustment be recognized for rate-making purposes?

Recommendation: Yes. Pursuant to Rule 25-30.0371, F.A.C., a negative acquisition adjustment of \$63,014 should be recognized for rate-making purposes. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition, which is \$31,507, should be amortized over a 7-year period and the remaining 50 percent should be amortized over the remaining 33-year life of the assets. (Frank)

Staff Analysis: An acquisition adjustment results when the purchase price differs from the original cost of the assets (net book value) adjusted to the time of the acquisition. Pursuant to Rule 25-30.0371(3), F.A.C., if the purchase price is equal to or less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base and will be equal to 80 percent of net book value less the purchase price. Pursuant to Rule 25-30.0371(4)(b)2., F.A.C., in setting the amortization period for an acquisition adjustment, if the purchase price is equal to or less than 50 percent of the net book value, then 50 percent of the negative acquisition adjustment is amortized over a 7-year period and 50 percent amortized over the remaining life of the assets, beginning with the date of the issuance of the order approving the transfer of assets. Staff calculated the remaining life of the applicable water assets to be 33 years. The calculation of the acquisition adjustment is shown below in table 3-1.

**Table 3-1
Calculation of Negative Acquisition Adjustment**

Net Book Value as of January 1, 2014	\$79,051
80% of Net Book value	\$63,241
Purchase Price	\$227
Negative Acquisition Adjustment	\$63,014

Staff recommends that, pursuant to Rule 25-30.0371, F.A.C., a negative acquisition adjustment of \$63,014 be recognized for rate-making purposes. Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition adjustment, which is \$31,507 shall be amortized over a 7-year period and the remaining 50 percent shall be amortized over the 33-year remaining life of the assets. If the interconnection is placed into rate base during a future rate case, the appropriateness of an acquisition adjustment should be addressed at that time.

Issue 4: 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 after SOU has provided proof that its general ledgers have been updated to reflect the Commission-approved balances as of January 1, 2014. (Janjic)

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 after SOU has provided proof that its general ledgers have been updated to reflect the Commission-approved balances as of January 1, 2014.

Township 16 South, Range 21 East

Section 4

The Southwest $\frac{1}{4}$

Less and except that portion of the Northeast $\frac{1}{4}$ of said Southwest $\frac{1}{4}$ of said Section 4 lying North and West of State Road 200

and

Less and except that portion of the Northeast $\frac{1}{4}$ of said Southeast $\frac{1}{4}$ of the Southwest $\frac{1}{4}$ of said Section 4 lying North and West of State Road 200.

Section 5

The East $\frac{3}{4}$ of the South $\frac{1}{2}$ of the Southeast $\frac{1}{4}$.

Section 8

That portion of the Northeast $\frac{1}{4}$ lying North and West of State Road 200. Except: Beginning at the intersection of the South boundary of the Northeast $\frac{1}{4}$ and the Northerly right-of-way of State Road 200; thence North $89^{\circ} 53' 23''$ West a distance of 1,458.52 feet; thence North $00^{\circ} 00' 34''$ East a distance of 665.08 feet; thence North $89^{\circ} 53' 23''$ East a distance of 1,326.73 feet; thence South $69^{\circ} 21' 33''$ East a distance of 557.40 feet; thence Southwesterly along the Northwestern right-of-way line of State Road 200 to the POINT OF BEGINNING.

Section 9

That portion of the Northwest $\frac{1}{4}$, lying North and West of State Road 200

FLORIDA PUBLIC SERVICE COMMISSION
authorizes
Southwest Ocala Utility, Inc.
pursuant to
Certificate Number 390-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.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
11868	04/21/83	810369-W	Grandfather Certificate
PSC-97-0578-FOF-WU	05/20/97	970085-WU	Amendment
PSC-03-0792-FOF-WU	07/03/93	030453-WU	Name Correction
*	*	150012-WU	Transfer

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

**Southwest Ocala Utility, Inc.
 Monthly Water Rates**

Residential and General Service

Base Facility Charge by Meter Size

5/8" x 3/4"	\$10.18
3/4"	\$15.27
1"	\$25.45
1 1/2"	\$50.89
2"	\$81.43
3"	\$162.86
4"	\$254.49
6"	\$508.94

Charge per 1,000 gallons – Residential

0-10,000 gallons	\$2.55
10,001-20,000 gallons	\$3.19
Over 20,000 gallons	\$3.81

Charge Per 1,000 gallons – General Service

\$2.70

Private Fire Protection

Base Facility Charge by Meter Size

4"	\$21.21
6"	\$42.41
8"	\$67.87
10"	\$97.56

Initial Customer Deposits

Residential Service and General Service

5/8" x 3/4"	\$50.00
3/4"	\$75.00
1"	\$125.00
Over 1"	2 times the average estimated bill

Miscellaneous Service Charges

	<u>Business Hours</u>	<u>After Hours</u>
Initial Connection Charge	\$21.00	N/A
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
Late Payment Charge		\$5.00

Service Availability Charges

Main Extension Charge

Residential – Per ERC

\$1,540.00

Allowance for Funds Prudently Invested – Bahia Oaks Transmission and Distribution Calculation of Carrying Cost per ERC by Month:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
January	\$28	\$360	\$718	\$1,103	\$1,518
February	\$55	\$389	\$750	\$1,137	\$1,555
March	\$83	\$419	\$781	\$1,172	\$1,593
April	\$110	\$449	\$813	\$1,206	\$1,630
May	\$138	\$478	\$845	\$1,241	\$1,667
June	\$165	\$508	\$877	\$1,275	\$1,704
July	\$193	\$538	\$909	\$1,309	\$1,741
August	\$220	\$567	\$941	\$1,344	\$1,778
September	\$248	\$597	\$973	\$1,378	\$1,815
October	\$275	\$626	\$1,005	\$1,413	\$1,852
November	\$303	\$656	\$1,037	\$1,447	\$1,889
December	\$330	\$686	\$1,069	\$1,481	\$1,926

1. The amounts indicated above are per ERC. (ERC=350)
2. The number of remaining ERCs is 422 as of 1/1/2006.
3. If the number of the remaining ERCs has not connected by December 31, 2010, the maximum charge of \$1,926 remains in effect after December 31, 2008.
4. When the number of remaining ERCs have connected, the charge will cease.

**Southwest Ocala Utility, Inc. Water System Schedule
Water System
Schedule of Net Book Value as of January 1, 2014**

<u>Description</u>	<u>Balance Per Utility</u>	<u>Adjustments*</u>	<u>Staff Recommendation</u>
Utility Plant in Service	\$219,537	\$7,177 A	\$226,714
Land & Land Rights	2,815	0	2,815
Accumulated Depreciation	(93,858)	203 B	(93,655)
CIAC	(87,008)	(10,839) C	(97,847)
Amortization of CIAC	<u>40,982</u>	<u>42</u> D	<u>41,024</u>
Total	<u>\$82,468</u>	<u>(\$3,417)</u>	<u>\$79,051</u>

* Adjustments are shown on the following page, Schedule No. 2, page 2 of 3.

**Explanation of Staff's Recommended
Adjustments to Net Book Value as of January 1, 2014
Water System**

<u>Explanation</u>	<u>Amount</u>
A. Utility Plant In Service	
I. To reflect appropriate amount of utility plant in service.	<u>\$7,177</u>
B. Accumulated Depreciation	
I. To reflect appropriate amount of accumulated depreciation.	<u>\$203</u>
C. Contributions-in-Aid-of-Construction (CIAC)	
I. To reflect appropriate amount of CIAC.	<u>(\$10,839)</u>
D. Accumulated Amortization of CIAC	
I. To reflect appropriate amount of accumulated amortization of CIAC.	<u>\$42</u>
Total Adjustments to Net Book Value as of January 1, 2014.	<u>(\$3,417)</u>

**Southwest Ocala Utility, Inc.
Water System**

Schedule of Staff Recommended Account Balances as of January 1, 2014

Account			Accumulated
<u>No.</u>	<u>Description</u>	<u>UPIS</u>	<u>Depreciation</u>
331	Transmission & Distribution Mains	\$167,931	\$(56,649)
334	Meters & Meter Installations	49,545	(32,598)
335	Hydrants	2,551	(479)
336	Backflow Prevention Devices	4,400	(3,300)
339	Other Plant & Misc.	2,287	(629)
340	Office Furniture & Equipment	<u>0</u>	<u>0</u>
	Total	<u>\$226,714</u>	<u>(\$93,655)</u>

Item 8

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lewis, King) *EG C14*
Division of Economics (Bruce) *EB*
Office of the General Counsel (Janjic, Crawford) *JD* *man for JSC*

RE: Docket No. 130209-SU – Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.

AGENDA: 10/11/16 – Regular Agenda – Proposed Agency Action for Issue 2, – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

North Peninsula Utilities Corporation (NPUC or Utility) is a Class B utility, which provides wastewater service to 569 customers in Volusia County. The City of Ormond Beach provides water to the area. NPUC's 2015 Annual Report lists operating revenues of \$221,963 and a net operating income of \$3,600. NPUC bought the assets of Shore Utility Corp. in 1989¹ and filed five subsequent territory amendments, which were all approved by the Commission. On August 2, 2013, the Utility filed an application to amend its wastewater certificate, pursuant to Section 367.045, Florida Statutes (F.S.), and Rule 25-30.036, Florida Administrative Code (F.A.C.). In addition, the Utility requested implementation of a main extension charge and a flat rate adjustment of three percent per year to monthly rates for five years. On November 4, 2013,

¹Order No. 22445, issued October 6, 2008, in Docket No. 891016-SU, *In re: Application of North Peninsula Utilities Corporation for transfer of Certificate No. 249-S from Shore Utility Corporation in Volusia County.*

NPUC withdrew its request for the flat rate adjustment. Staff identified several deficiencies in the certificate amendment filing and met with the Utility's representatives. At that meeting, it was disclosed that there were potential objections to the territory amendment by Volusia County and the City of Ormond Beach. As such, the processing of the application was put on hold.

On March 10, 2014, the Utility filed a revised application to amend its service territory based upon negotiations with the City of Ormond Beach and Volusia County. The revised application included less territory than its original filing and a proposed tariff for a \$795 main extension charge. Pursuant to Order No. PSC-14-0273-PCO-SU, issued May 29, 2014, the Commission suspended the proposed tariff to allow staff sufficient time to review all pertinent information.² On July 21, 2014, NPUC filed additional information to address the deficiencies previously identified by staff. On October 20, 2014, NPUC representatives met with staff to discuss the amended application and on January 13, 2015, NPUC filed supplemental information to address staff's concerns.

On April 2, 2015, staff filed a written recommendation that:

- NPUC's revised application be denied because the application failed to demonstrate a need for service in the territory requested.
- Denial of the application obviated the need for a main extension charge.
- The service availability policy should be revised to reflect that there are no service availability charges because the plant is fully depreciated.

On April 3, 2015, NPUC requested that the item be deferred from the April 16, 2015 Commission Conference so that representatives of the Utility could again meet with staff. The deferral was granted and a noticed informal meeting was convened on April 20, 2015. At that meeting, NPUC informed staff that it was removing certain areas from the previously filed request for territory expansion, abandoning its three-phased approach to expanding the territory, and withdrawing its request for a main extension charge. A map outlining the changes in territory was provided at the meeting, and on May 26, July 24, and August 27, 2015, additional data was filed by the Utility.

On October 22, 2015, staff filed a written recommendation that recommended denial of NPUC's application for the same reasons described in the April 2, 2015 recommendation. On November 5, 2015, the Commission deferred staff's recommendation to allow the Utility to reevaluate its plan to provide service to the requested areas. On February 10, 2016, NPUC again revised its plan. The February 10, 2016, revision removed certain areas from its original request. The filing also contained cost estimates to serve the remaining areas for which the Utility seeks to serve. Accurate legal descriptions for the proposed annexed areas were provided to staff on June 28, 2016. This recommendation addresses NPUC's application as modified on February 10, 2016. The Commission has jurisdiction pursuant to Section 367.045, F.S.

²Order No. PSC-14-0273-PCO-SU, issued May 29, 2014, in Docket No. 130209-SU, *In re: Application for expansion of certificate (CIAC) (new wastewater line extension charge) by North Peninsula Utilities Corp.*

Discussion of Issues

Issue 1: Should North Peninsula Utilities Corporation's proposed territory amendment be approved?

Recommendation: Yes in part and no in part. It is in the public interest to amend wastewater certificate number 249-S to include the territory as described in Attachment A, with the exception of the addition identified as Area 4 (i.e., Capri Drive), effective the date of the Commission's vote. The resultant order should serve as NPUC's amended certificate and should be retained by the Utility. If the Commission agrees with staff's recommendation, the Utility should revise its territorial description to exclude Area 4 and file the revision within ten (10) days of the Commission's vote. (Bruce, Janjic, Lewis)

Staff Analysis: Based on NPUC's application to amend its authorized service territory as well as additional information provided by the Utility staff believes that NPUC is in compliance with the governing statute, Section 367.045, F.S., and Rule 25-30.036, Florida Administrative Code (F.A.C.), Application for Amendment to Certificate of Authorization to Extend or Delete Service Area. The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C, Notice of Application and of Customer Meeting. No objections to the application have been received and the time for filing such has expired. Adequate service territory maps and territory descriptions have also been provided.

NPUC currently provides wastewater service in the north peninsula area of Volusia County pursuant to wastewater certificate number 249-S. NPUC's 2016 Application identifies seven (7) distinct areas to be annexed. Service availability charges for each of the seven areas are discussed in Issue 2. Attachment A to this recommendation provides an illustration of NPUC's proposed territory expansion as well as a brief description of each territory.

Rule 25-30.036, F.A.C., requires a utility to provide a statement showing the need for service in the area requested. All residences in the territory NPUC seeks to serve currently have wastewater treatment in place, either by privately owned and maintained septic tanks or existing wastewater treatment (package) plants.

Staff's previously filed recommendations, addressing NPUC's application, recommended that the Commission deny the Utility's application because the Utility failed to demonstrate a need for service in the territory requested. Specifically, staff was concerned that the existing residents, in the territory NPUC seeks to add, likely would not connect to NPUC's system unless required by the county. Staff's October 22, 2015, recommendation states:

Staff believes that as long as the county continues to issue permits for replacement and repair of existing wastewater treatment systems and mandatory interconnection is not required, customers are highly unlikely to voluntarily connect to NPUC's system....Without an enforced mandatory interconnection, a customer is unlikely to abandon a functioning septic system to connect to NPUC.

On December 22, 2015, the Volusia County Commission revised its ordinances to mandate connection to a municipal or privately owned wastewater provider when the facilities become available.³ The ordinance further requires residents to connect within five years of installation of wastewater facilities. Giving consideration to the revised ordinance, staff believes NPUC has reasonably demonstrated a need for service in the areas requested.

In the previous recommendation, staff had concerns regarding the vague conditions for obtaining service in certain areas that NPUC was seeking to serve. The Utility was advocating that individual customer service requests would be evaluated and the customer may or may not have to pay for the collection lines depending on the situation or facilities required. Another of staff's concerns was that NPUC's plan appeared to expect customers living along the interior streets between John Anderson Drive and Ocean Shores Blvd (A1A), wishing to connect, to pay for the construction of collection lines. NPUC's request, as amended on February 10, 2016, no longer contains the areas discussed above. Therefore, the Utility's amendment appears to mitigate staff's prior concerns.

As previously discussed, NPUC is proposing service expansion in seven distinct areas. One of the areas that NPUC is proposing to serve consists of 55 homes/lots and is located on Capri Drive. This area is identified as Area 4 in Attachment A. Volusia County constructed a wastewater main along Capri Drive that is currently not in use. Upon confirmation of a service request within the specified area, NPUC proposed to install a new lift station with a grinder pump and connect it to the existing wastewater main.

Staff recommends denial of the addition of Area 4 because NPUC has not provided documentation showing that Volusia County would permit NPUC access to the existing wastewater main on Capri Drive. NPUC states that an agreement concerning the Capri Drive facilities cannot be finalized until Capri Drive lies within the territory of NPUC. Approving extension to Area 4 could lead to a situation in which the Utility would be required to serve customers with infrastructure that it may not be permitted to access. Under such a scenario NPUC may not be able to adequately address customer concerns or quality of service issues that are associated with the wastewater main. Therefore, staff recommends that the Commission deny the addition of Area 4.

The Utility provided analysis as well as an engineer's statement to demonstrate that the Utility has adequate capacity to serve the additional territory. Based on the analysis provided, more than 60 percent of NPUC's wastewater treatment plant is available to serve future customers. Staff believes that the documentation provided by the Utility adequately demonstrates that NPUC has sufficient plant capacity to serve the additional territory. Additionally, at this time there does not appear to be any outstanding Consent Orders or Notices of Violation from DEP associated with NPUC's wastewater treatment plant.

³See Document No. 04082-16

Conclusion

Based on the information above, staff recommends it is in the public interest to amend wastewater certificate number 249-S to include the territory as described in Attachment A, with the exception of the addition identified as Area 4 (i.e., Capri Drive), effective the date of the Commission's vote. The resultant order should serve as NPUC's amended certificate and should be retained by the Utility. If the Commission agrees with staff's recommendation, the Utility should revise its territorial description to exclude Area 4 and file the revision within ten (10) days of the Commission's vote.

Issue 2: What are the appropriate service availability charges for NPUC?

Recommendation: New customers requesting service should be required to either install the mains necessary to connect to the Utility and donate those lines to the Utility, or the Utility may extend the required lines and collect a main extension charge based on whether a road crossing and force main are required. A main extension charge associated with a road crossing of \$762 per equivalent residential connection (ERC) and a main extension charge with no road crossing of \$444 per ERC should be approved. The recommended main extension charges should be based on an estimated 250 gallons per day per ERC of treated wastewater demand. Also, staff recommends a force main extension charge of \$1.25 per linear foot where the Utility will need to extend its force main to provide service. The Utility should be required to file tariffs reflecting the revised service availability policy and charges. The approved service availability policy and charges should be effective for connections made on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C. (Bruce)

Staff Analysis: As mentioned earlier, NPUC is requesting authority to add seven service areas to its existing territory, which are referred to as proposed service areas 1, 2, 3A, 3B, 3C, 4, and 5. However, as discussed in Issue 1, staff recommended proposed service Area 4 not be approved. The proposed service areas include properties with small package plants, septic tanks, and vacant lots. In addition, the Utility's existing service territory includes an undeveloped eight-acre parcel of land.

Currently, the Utility does not have an approved plant capacity or main extension charge. The Utility's plant capacity charge was eliminated in a prior docket, because continued collection would have resulted in a contribution level at build out in excess of the 75 percent maximum guideline, pursuant to Rule 25-30.580, F.A.C.⁴ All collection lines needed to serve the existing service territory are installed with the exception of the eight-acre parcel. In addition, all of the collection system is contributed property and is fully depreciated. The Utility's existing service availability policy provides that in instances where the Utility undertakes the installation of collection lines, in lieu of the developer's installation of such facilities, such installation will be at the cost and expense of the developer. The Utility will provide laterals for wastewater service to the developer's lot line ready for a plumber's "hook-up." The Utility's practice has been to connect new customers without charge for the installation of the service line to the Utility's collection system when a vacant lot is developed.

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution system or wastewater collection system.

⁴Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, *In re: Application of Shore Utility Corporation for a staff-assisted rate case in Volusia County, Florida.*

The Utility originally proposed a main extension charge of \$795, but the request was withdrawn as a result of a revised filing. In the Utility's recent filing, the Utility provided the incremental cost that would be incurred in order to provide service to each of the respective proposed service areas as shown below in Table 2-1. However, the Utility did not propose any service availability charges that correspond to the incremental cost.

Table 2-1
Estimated Main Extension Costs

	Service Area	Estimated Cost	Number Connections
1	Kingston Shores Condominiums	\$150,000	106
2	John Anderson Drive (Ormond Beach Plaza)	\$13,100	10
3A	John Anderson Drive (Seabridge)	\$8,200	6
3B	Mid John Anderson Drive	\$13,500	26
3C	Southerly John Anderson Drive	\$13,800	18
5	Fairwinds Shores Condominiums	\$72,000	102

Source: Document No. 008676-16

Service to customers in the proposed service areas will require installation of force mains and laterals. In some areas, a single main extension is needed to connect a particular property; however, in areas where there are single family homes or duplexes, a main extension may serve multiple properties. In December of 2015, Volusia County enacted an ordinance that requires mandatory connection to municipal or investor owned wastewater facilities within five years when such facilities become available. At this time, the Utility is not investing in the proposed infrastructure until there is request for service. Requests for service may either not materialize in any particular proposed service area or come at varying times.

Staff believes it is appropriate to recommend a main extension charge for future connections in areas where a single main extension may serve multiple properties. This will allow those customers to pay their pro rata share of the average cost of the infrastructure needed to provide service to their property. In order to determine the appropriate main extension charge, staff evaluated the Utility's estimated costs to extend service. Staff determined that there are several scenarios under which service may be provided to the respective service areas. Service may be provided either with or without a road crossing to a force main. In some instances, the Utility may need to install an additional force main to provide service. As result, staff determined the average cost of the main extension charge with a road crossing and one without a road crossing. In addition, staff calculated a per linear foot force main charge. Typically, staff would develop a single main extension charge per connection that would reflect the pro rata share of the cost of the lines. However, the circumstances of the amendment are unique because of the uncertainty of the need for the service and the disparity in the cost to provide service to each distinct area. As a result, staff believes that a more reasonable approach is to design a main extension charge that would allow those customers to pay their pro rata share of the average cost of the infrastructure needed to provide service to their property.

Based on the above, staff recommends that, consistent with the guidelines in Rule 25-30.580, F.A.C., new customers requesting service should either install the mains necessary to connect to the Utility and donate those lines to the Utility or, the Utility may extend the required lines and collect a main extension charge based on whether a road crossing is required. A main extension charge associated with a road crossing of \$762 per ERC and a main extension charge with no road crossing of \$444 per ERC should be approved. The recommended main extension charges should be based on an estimated 250 gallons per day of treated wastewater demand. Also, staff recommends a force main extension charge of \$1.25 per linear foot, based on the average cost per connection, where the Utility will need to extend its force main to provide service.

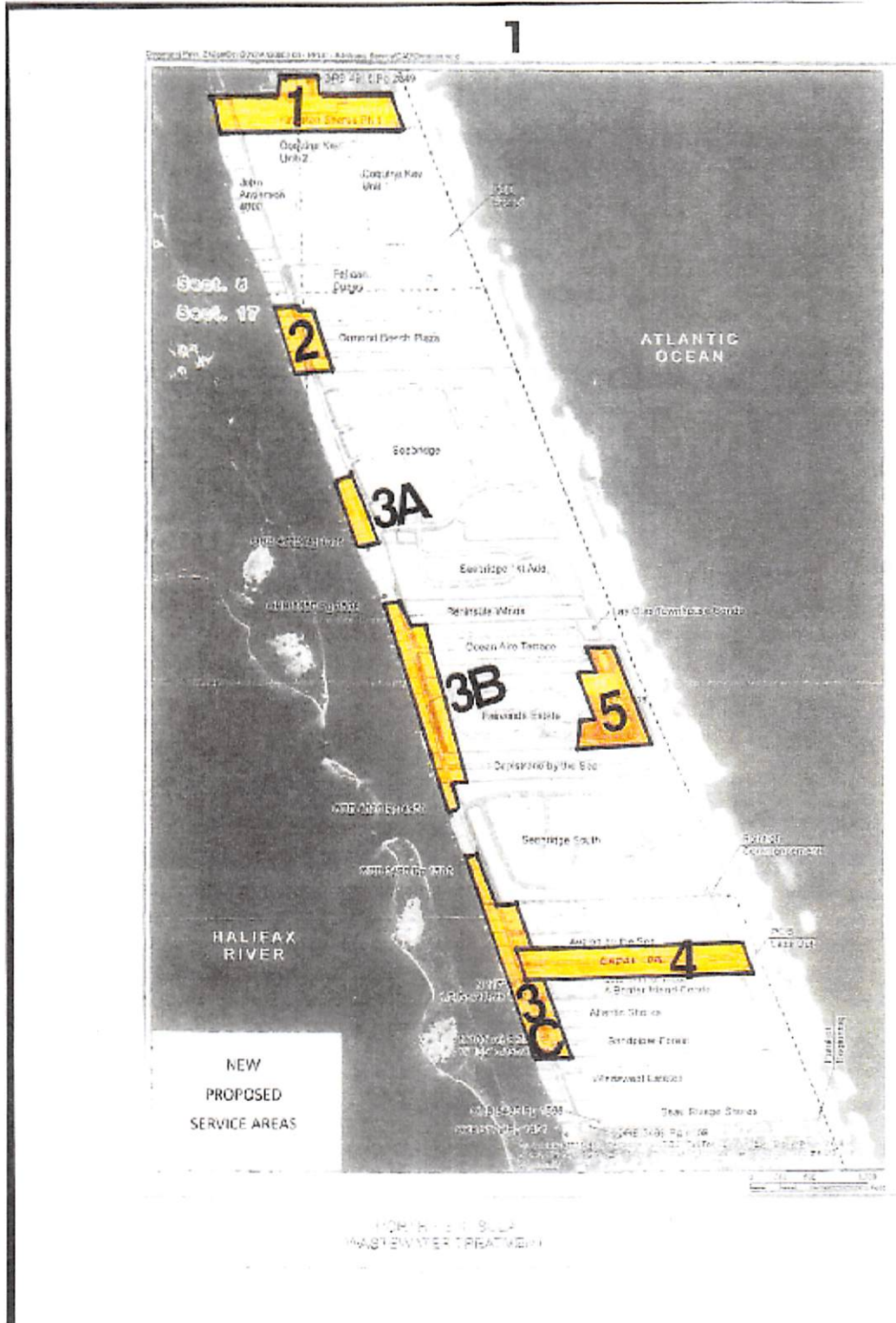
Summary

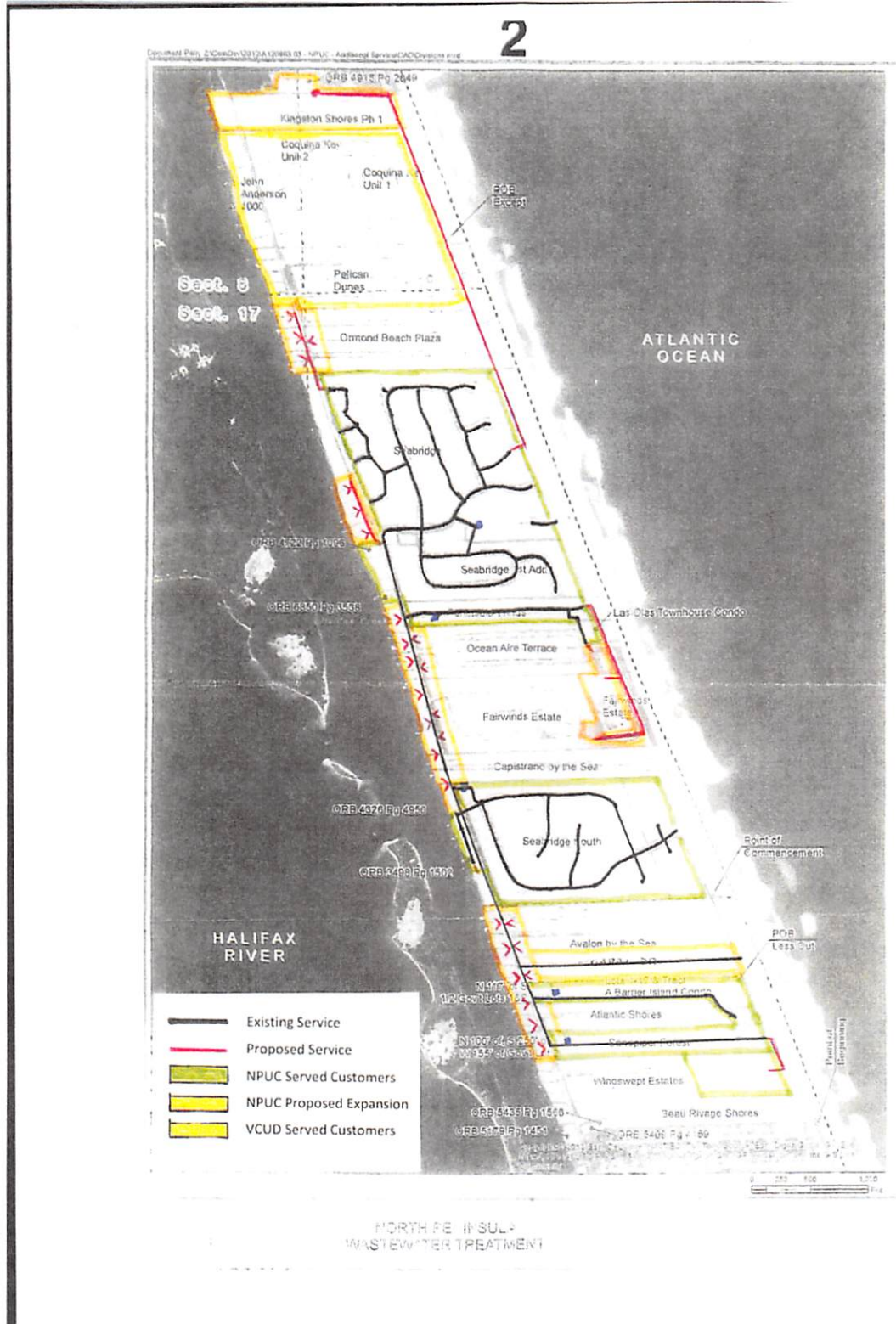
New customers requesting service should be required to either install the mains necessary to connect to the Utility and donate those lines to the Utility or, the Utility may extend the required lines and collect a main extension charge based on whether a road crossing and force main are required. A main extension charge associated with a road crossing of \$762 per ERC and a main extension charge with no road crossing of \$444 per ERC should be approved. The recommended main extension charges should be based on an estimated 250 gallons per day per ERC of treated wastewater demand. Also, staff recommends a force main extension charge of \$1.25 per linear foot, based on the average cost per connection, where the Utility will need to extend its force main to provide service. The Utility should be required to file tariffs reflecting the revised service availability policy and charges. The approved service availability policy and charges should be effective for connections made on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, F.A.C .

Issue 3: Should this docket be closed?

Recommendation: Yes ^{via} 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, and the docket should remain open for staff's verification that the revised tariff sheets have been filed by the Utility and approved by staff. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect subject to refund pending the resolution of the protest, and the docket should remain open. (Janjic)

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, and the docket should remain open for staff's verification that the revised tariff sheets have been filed by the Utility and approved by staff. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect subject to refund pending the resolution of the protest, and the docket should remain open.





ADDITIONAL SERVICE AREA

LANDS IN SECTIONS 8, 9, 16, 17 & 21 IN TOWNSHIP 13 SOUTH RANGE 32° EAST VOLUSIA COUNTY FLORIDA DESCRIBED AS FOLLOWS:

1

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1400 FEET NORTH TO THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 88° EAST 139 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 332 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO A POINT 1700 FEET NORTH TO THE SOUTH LINE OF SECTION 9;
4. THENCE NORTH 88° WEST 700 FEET ALONG THE NORTH LINE OF KINGSTON SHORES PER MAP BOOK 33 PAGE 67;
5. THENCE NORTH 1° WEST 159 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
6. THENCE NORTH 89° WEST 342 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
7. THENCE SOUTH 0° WEST 120 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
8. THENCE SOUTH 90° WEST 141 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
9. THENCE SOUTH 0° EAST 39 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
10. THENCE NORTH 90° WEST 275 FEET ALONG THE NORTH LINE OF THE NORTH LINE OF KINGSTON SHORES PER TAX BOOK 33 PAGE 67;
11. THENCE NORTH 90° WEST 162 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE WEST LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
12. THENCE SOUTH 23° EAST 357 FEET ALONG THE EAST EDGE OF HALIFAX CREEK AND WEST LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
13. THENCE NORTH 89° EAST 1521 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101C580 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE POINT OF COMMENCEMENT;

1

2

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 625 FEET SOUTH OF THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 90° WEST 153 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 16133201000940 OFFICIAL RECORD BOOK 6825 PAGE 4998;
3. THENCE NORTH 23° WEST 596 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH° WEST CORNER OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191;
4. THENCE SOUTH 90° EAST 179 FEET ALONG THE NORTH LINE OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191 TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 45° EAST 55 FEET TO THE NORTH WEST CORNER OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769
6. THENCE SOUTH 90° EAST 171 FEET TO THE NORTH EAST CORNER OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769;
7. THENCE SOUTH 0° EAST 539 FEET MEANDERING ON THE EAST LINE OF PARCEL 16133201000270 OFFICIAL RECORD BOOK 7247 PAGE 0769, PARCEL 16133201000280 OFFICIAL RECORD BOOK 7124 PAGES 0626-0627, PARCEL 16133201000650 OFFICIAL RECORD BOOK 7244 PAGE 1292, PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844 TO THE SOUTH EAST CORNER OF PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844.
8. THENCE SOUTH 90° EAST 143 FEET ALONG THE EAST LINE OF PARCEL 16133201000660 OFFICIAL RECORD BOOK 7112 PAGE 1844 TO THE POINT OF COMMENCEMENT.

3A

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 2100 FEET SOUTH OF THE SOUTH LINE OF SECTION 9.
2. THENCE SOUTH 75° WEST 202 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTHWEST CORNER OF PARCEL 16133200020040 OFFICIAL RECORD BOOK 6630 PAGE 2850;

3. THENCE NORTH 23° WEST ALONG EAST EDGE OF HALIFAX CREEK 598 FEET TO THE NORTHWEST CORNER OF PARCEL 16133200020052 OFFICIAL RECORD BOOK 3826 PAGE 1155;
4. THENCE NORTH 75° EAST 172 FEET ALONG THE NORTH LINE OF PARCEL 16133200020052 OFFICIAL RECORD BOOK 3826 PAGE 1155 TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 23° EAST 644 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE TO THE POINT OF COMMENCEMENT;

3B

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 780 FEET NORTH FROM THE SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 75° WEST 103 FEET TO THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 16133200040021 OFFICIAL RECORD BOOK 4973 PARCEL 3672;
3. THENCE NORTH 23° WEST 1889 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH WEST CORNER OF PARCEL 16133200030030 OFFICIAL RECORD BOOK 4541 PAGE 4174;
4. THENCE NORTH 88° EAST 166 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
5. THENCE SOUTH 23° EAST 218 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE;
6. THENCE SOUTH 88° EAST 151 FEET TO THE NORTH EAST CORNER OF PARCEL 16133202000180 OFFICIAL RECORD BOOK 2610 PAGE 1860;
7. THENCE SOUTH 23° EAST 931 FEET TO THE NORTH CORNER OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070;
8. THENCE SOUTH 45° EAST 140 FEET ALONG THE NORTHEAST LINE OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070 AND THE NORTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE EAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
9. THENCE SOUTH 30° WEST 135 FEET ALONG THE SOUTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE SOUTHEAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
10. THENCE SOUTH 23° EAST 138 FEET ALONG THE EAST LINE OF PARCEL 16133203000330 OFFICIAL RECORD BOOK 4665 PAGE 4177 AND THE EAST LINE OF PARCEL

16133203000320 OFFICIAL RECORD BOOK 6674 PAGE 4101 TO THE CENTERLINE OF
CAPISTRANO DRIVE;

11. THENCE SOUTH 23° WEST 133 FEET ALONG THE EAST LINE OF PARCEL 16133203000380
OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE SOUTHEAST CORNER OF PARCEL
16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773;
12. THENCE NORTH 88° WEST 104 FEET ALONG THE SOUTH LINE OF PARCEL
16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE CENTERLINE OF
JOHN ANDERSON DRIVE;
13. THENCE SOUTH 22° EAST 252 FEET TO THE POINT OF COMMENCEMENT.

3C

1. COMMENCE AT THE CENTERLINE OF JOHN ANDERSON DRIVE 1343 FEET SOUTH FROM
SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 90° EAST 136 FEET TO THE SOUTHEAST CORNER OF PARCEL
21133228000010 OFFICIAL RECORD BOOK 7094 PAGE 3064;
3. THENCE NORTH 23° WEST 257 FEET TO THE NORTHEAST CORNER OF PARCEL
21133200010050 OFFICIAL RECORD BOOK 5166 PAGE 4309;
4. THENCE NORTH 88° EAST 35 FEET ALONG THE SOUTH LINE OF PARCEL 21133202000350
OFFICIAL RECORD BOOK 5464 PAGE 4665 AND TO THE SOUTH EAST CORNER OF PARCEL
21133202000350 OFFICIAL RECORD BOOK 5464 PAGE 4665;
5. THENCE NORTH 35° WEST 472 FEET ALONG THE EAST EDGE OF PARCEL
21133202000350 OFFICIAL RECORD BOOK 5464 PAGE 4665, THE EAST EDGE OF PARCEL
21133202000330 OFFICIAL RECORD BOOK 5078 PAGE 0509, THE EAST EDGE OF PARCEL
21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975 TO THE NORTH EAST
CORNER OF PARCEL 21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975;
6. THENCE SOUTH 88° WEST 118 FEET ALONG THE NORTH LINE OF PARCEL
21133200010012 OFFICIAL RECORD BOOK 6860 PAGE 3975 TO THE CENTERLINE OF
JOHN ANDERSON DRIVE;
7. THENCE NORTH 23° WEST 340 FEET ALONG THE CENTERLINE OF JOHN ANDERSON
DRIVE;
8. THENCE NORTH 88° EAST 149 FEET ALONG THE NORTH LINE OF PARCEL
21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779;
9. THENCE NORTH 23° WEST 367 FEET TO THE CENTERLINE OF VIA MADRID DRIVE;

10. THENCE SOUTH 88° WEST 130 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE;
11. THENCE NORTH 23° WEST 500 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE 417 FEET NORTH OF THE SOUTH LINE OF SECTION 16;
12. THENCE SOUTH 75° WEST 122 FEET TO THE EAST SIDE OF HALIFAX CREEK AT THE NORTH WEST CORNER OF PARCEL 16133207000050 OFFICIAL RECORD BOOK 3498 PAGE 1502;
13. THENCE SOUTH 23° EAST 1820 FEET ALONG THE EAST EDGE OF HALIFAX CREEK AND THE SOUTH WEST CORNER OF PARCEL 21133200020010 OFFICIAL RECORD BOOK 6956 PAGE 3747;
14. THENCE NORTH 90° WEST 156 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE AND THE POINT OF COMMENCEMENT.

4

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 690 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE SOUTH 88° EAST 80 FEET TO THE SOUTHEAST CORNER OF PARCEL 21133201001791 OFFICIAL RECORD BOOK 6620 PAGE 4880 AT THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 291 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE NORTHEAST CORNER OF PARCEL 21133201001131 OFFICIAL RECORD BOOK 6783 PAGE 3207;
4. THENCE SOUTH 88° WEST 1795 FEET TO THE NORTHWEST CORNER OF PARCEL 21133201001430 OFFICIAL RECORD BOOK 3841 PAGE 4495;
5. THENCE NORTH 21° WEST 59 FEET TO THE NORTHEAST CORNER OF PARCEL 21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779;
6. THENCE NORTH 88° WEST 150 FEET ALONG THE NORTH SIDE OF PARCEL 21133201000810 OFFICIAL RECORD BOOK 6796 PAGE 0779 TO THE CENTERLINE OF JOHN ANDERSON DRIVE AT 680 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
7. THENCE SOUTH 21° EAST 343 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE;
8. THENCE NORTH 88° EAST 1880 FEET TO THE POINT OF COMMENCEMENT.

5

5

- 1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1306 FEET NORTH OF THE SOUTH LINE OF SECTION 16;**
- 2. THENCE NORTH 88° EAST 122 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AND TO THE SOUTHEAST CORNER OF PARCEL 16133210025070 OFFICIAL RECORD BOOK 3079 PAGE 0584;**
- 3. THENCE NORTH 23° WEST 925 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN THE NORTHEAST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;**
- 4. THENCE SOUTH 88° WEST 83 FEET ALONG THE NORTH LINE OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524 TO THE NORTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;**
- 5. THENCE SOUTH 88° WEST 208 FEET ALONG THE CENTERLINE OF OCEAN AIRE TERRACE TO THE INTERSECTION WITH OCEAN AIRE TERRACE NORTH AND OCEAN AIRE TERRACE SOUTH;**
- 6. THENCE SOUTH 23° EAST 240 FEET ALONG THE WEST LINE OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524 TO THE SOUTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 7251 PAGE 0524;**
- 7. THENCE NORTH 90° WEST 177 FEET TO THE NORTHWEST CORNER OF PARCEL 16133210030010 OFFICIAL RECORD BOOK 6944 PAGE 2102;**
- 8. THENCE SOUTH 23° EAST 340 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330;**
- 9. THENCE SOUTH 70° WEST 140 FEET ALONG THE SOUTH LINE OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330 TO THE CENTERLINE OF JULIE DRIVE;**
- 10. THENCE SOUTH 30° WEST 312 FEET TO THE SOUTH WEST CORNER OF PARCEL 16133208000510 OFFICIAL RECORD BOOK 3822 PAGE 1958;**
- 11. THENCE NORTH 88° EAST 708 FEET TO THE POINT OF COMMENCEMENT.**

6

TOTAL SERVICE AREA

LANDS IN SECTIONS 8, 9, 16, 17 & 21 IN TOWNSHIP 13 SOUTH RANGE 32° EAST VOLUSIA COUNTY FLORIDA DESCRIBED AS FOLLOWS:

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 3640 FEET NORTH OF THE SOUTH LINE OF SECTION 21;
2. THENCE NORTH 88° EAST 73 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN ALONG THE SOUTH LINE OF PARCEL 21132200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
3. THENCE NORTH 23° WEST ALONG THE SHORELINE OF THE ATLANTIC OCEAN 1800 FEET TO THE CENTERLINE OF VIA MADRID ROAD ON THE SOUTH LINE OF SECTION 16;
4. THENCE NORTH 88° WEST 93 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A) ON THE SOUTH LINE OF SECTION 16;
5. THENCE NORTH 23° WEST 1100 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
6. THENCE NORTH 88° EAST 97 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN ALONG THE SOUTH LINE OF PARCEL 16133203000010 PER OFFICIAL RECORD BOOK 4446 PAGE 1762;
7. THENCE NORTH 23° WEST 1448 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE SOUTH EAST CORNER OF PARCEL 16133200030022 PER OFFICIAL RECORD BOOK 4234 PAGE 4898;
8. THENCE NORTH 88° WEST 125 FEET ALONG THE SOUTH LINE OF PARCEL 16133200030022 PER OFFICIAL RECORD BOOK 4234 PAGE 4898 TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
9. THENCE NORTH 23° WEST 2300 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
10. THENCE NORTH 88° EAST 139 FEET ALONG THE SOUTH LINE OF PARCEL 16133201000880 PER OFFICIAL RECORD BOOK 4672 PAGE 0283 TO THE SHORELINE OF THE ATLANTIC OCEAN;
11. THENCE NORTH 23° WEST 1141 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE SOUTH LINE OF PARCEL 09133201000001 PER OFFICIAL RECORD BOOK 5148 PAGE 1248;

12. THENCE NORTH 88° WEST 139 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A) LOCATED 430 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
13. THENCE NORTH 23° WEST 1052 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
14. THENCE NORTH 88° EAST 127 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101CS80 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE SHORELINE OF THE ATLANTIC OCEAN;
15. THENCE NORTH 23° WEST 332 FEET TO THE NORTH EAST CORNER OF PARCEL 0823320101CS80 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
16. THENCE NORTH 88° WEST 700 FEET ALONG THE NORTH LINE OF KINGSTON SHORES PER MAP BOOK 33 PAGE 67;
17. THENCE NORTH 1° WEST 159 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 OFFICIAL RECORD BOOK 4915 PAGE 2649;
18. THENCE NORTH 89° WEST 342 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
19. THENCE SOUTH 0° EAST 120 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
20. THENCE SOUTH 90° WEST 141 FEET ALONG THE NORTH LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
21. THENCE SOUTH 0° EAST 39 FEET ALONG THE WEST LINE OF PARCEL 09133200010050 PER OFFICIAL RECORD BOOK 4915 PAGE 2649;
22. THENCE NORTH 90° WEST 275 FEET ALONG THE NORTH LINE OF PARCEL 0823320101CS80 PER OFFICIAL RECORD BOOK 6586 PAGE 2933;
23. THENCE NORTH 90° WEST 162 FEET ALONG THE NORTH LINE OF PARCEL 08133200050010 PER OFFICIAL RECORD BOOK 6528 PAGE 2046;
24. THENCE SOUTH 23° EAST 2505 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTH LINE OF PARCEL 17133200010080 PER OFFICIAL RECORD BOOK 1917 PAGE 0953 AND THE NORTH LINE OF PARCEL 16133200010030 PER OFFICIAL RECORD BOOK 2049 PAGE 1087;
25. THENCE NORTH 90° EAST 153 FEET TO THE CENTERLINE OF JOHN ANDERSON DRIVE ALONG THE NORTH LINE OF PARCEL 17133200010080 PER OFFICIAL RECORD BOOK

1917 PAGE 0953 AND THE NORTH LINE OF PARCEL 16133200010030 PER OFFICIAL RECORD BOOK 2049 PAGE 1087;

26. THENCE SOUTH 23° EAST 929 FEET ALONG THE CENTERLINE OF JOHN ANDERSON DRIVE LOCATED 1493 FEET SOUTH OF THE SOUTH LINE FOR SECTION 9;
27. THENCE SOUTH 78° WEST 153 FEET ALONG THE SOUTH LINE OF PARCEL 16133200010030 PAGE 2049 PAGE 1087 TO THE EAST EDGE OF HALIFAX CREEK;
28. THENCE SOUTH 23° EAST 5242 FEET ALONG EAST EDGE OF HALIFAX CREEK TO THE SOUTHWEST CORNER OF PARCEL 21133200020010 PER OFFICIAL RECORD BOOK 6956 PAGE 3747;
29. THENCE SOUTH 90° EAST 1250 FEET TO THE NORTHWEST CORNER OF PARCEL 21133200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
30. THENCE SOUTH 23° EAST 404 FEET TO THE SOUTHWEST CORNER OF PARCEL 21133200040010 PER OFFICIAL RECORD BOOK 6826, PAGE 1586;
31. THENCE SOUTH 88° EAST 813 FEET TO THE POINT OF COMMENCEMENT.

LESS OUT

A

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 632 FEET SOUTH OF THE SOUTH LINE OF SECTION 9;
2. THENCE NORTH 88° EAST 139 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AT THE SOUTHEAST CORNER OF PARCEL 16133201000880 PER OFFICIAL RECORD BOOK 4672 PAGE 0283;
3. THENCE NORTH 23° WEST 1141 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN LOCATED 431 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
4. THENCE NORTH 88° WEST 139 FEET TO THE CENTERLINE OF OCEAN SHORE BLVD (A1A);
5. THENCE NORTH 23° WEST 1052 FEET ALONG THE CENTERLINE OF OCEAN SHORE BLVD (A1A) LOCATED 1416 FEET NORTH OF THE SOUTH LINE OF SECTION 9;
6. THENCE SOUTH 88° WEST 1541 FEET ALONG THE SOUTH LINE OF PARCEL 0813320101CS80 PER OFFICIAL RECORD BOOK 6586 PAGE 2933 TO THE EAST EDGE OF HALIFAX CREEK;

7. THENCE SOUTH 23° EAST 1545 FEET ALONG THE EAST EDGE OF HALIFAX CREEK TO THE NORTHEAST CORNER OF PARCEL 17133200010020 OFFICIAL RECORD BOOK 6834 PAGE 3191;
8. THENCE SOUTH 88° EAST 371 FEET TO THE NORTHEAST CORNER OF PARCEL 16133201000270 PER OFFICIAL RECORD BOOK 7247 PAGE 0769;
9. THENCE SOUTH 12° EAST 527 FEET TO THE SOUTHEAST CORNER OF PARCEL 16133201000660 PER OFFICIAL RECORD BOOK 7112 PAGE 1844;
10. THENCE NORTH 88° EAST 1403 FEET TO THE COMMENCEMENT POINT.

B

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 1030 FEET NORTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE NORTH 88° EAST 111 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN AT THE SOUTH EAST CORNER OF PARCEL 16133203000010 OFFICIAL RECORD BOOK 4446 PAGE 1762;
3. THENCE NORTH 23° WEST 281 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE NORTHEAST CORNER OF PARCEL 16133203000040 OFFICIAL RECORD BOOK 6834 PAGE 2744;
4. THENCE SOUTH 88° WEST 800 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133208000510 OFFICIAL RECORD BOOK 3822 PAGE 1958;
5. THENCE NORTH 30° EAST 342 FEET TO THE CENTERLINE OF JULIE DRIVE;
6. THENCE NORTH 60° EAST 134 FEET TO THE SOUTHEAST CORNER OF PARCEL 16133208000140 OFFICIAL RECORD BOOK 7252 PAGE 4330;
7. THENCE NORTH 23° WEST 335 FEET TO THE NORTHWEST CORNER OF PARCEL 16133210030010 OFFICIAL RECORD BOOK 6944 PAGE 2102;
8. THENCE NORTH 88° EAST 177 FEET TO THE SOUTHWEST CORNER OF PARCEL 16133211004020 OFFICIAL RECORD BOOK 6438 PAGE 4032;
9. THENCE NORTH 23° WEST 493 FEET TO THE NORTHWEST CORNER OF PARCEL 16133216000060 OFFICIAL RECORD BOOK 6967 PAGE 0126;
10. THENCE SOUTH 88° WEST 1303 FEET TO THE NORTHWEST CORNER OF PARCEL 16133202000170 OFFICIAL RECORD BOOK 6172 PAGES 2481-2482;

11. THENCE SOUTH 23° EAST 931 FEET TO THE NORTH CORNER OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070;
12. THENCE SOUTH 45° EAST 140 FEET ALONG THE NORTHEAST LINE OF PARCEL 16133208000470 OFFICIAL RECORD BOOK 4142 PAGE 2070 AND THE NORTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE EAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
13. THENCE SOUTH 23° WEST 135 FEET ALONG THE SOUTHEAST LINE OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055 TO THE SOUTHEAST CORNER OF PARCEL 16133208000460 OFFICIAL RECORD BOOK 5625 PAGE 1055;
14. THENCE SOUTH 23° EAST 138 FEET ALONG THE EAST LINE OF PARCEL 16133203000330 OFFICIAL RECORD BOOK 4665 PAGE 4177 AND THE EAST LINE OF PARCEL 16133203000320 OFFICIAL RECORD BOOK 6674 PAGE 4101 TO THE CENTERLINE OF CAPISTRANO DRIVE;
15. THENCE SOUTH 23° WEST 133 FEET ALONG THE EAST LINE OF PARCEL 16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773 TO THE SOUTHEAST CORNER OF PARCEL 16133203000380 OFFICIAL RECORD BOOK 4824 PAGE 2773;
16. THENCE NORTH 88° EAST 1702 FEET TO THE COMMENCEMENT POINT.

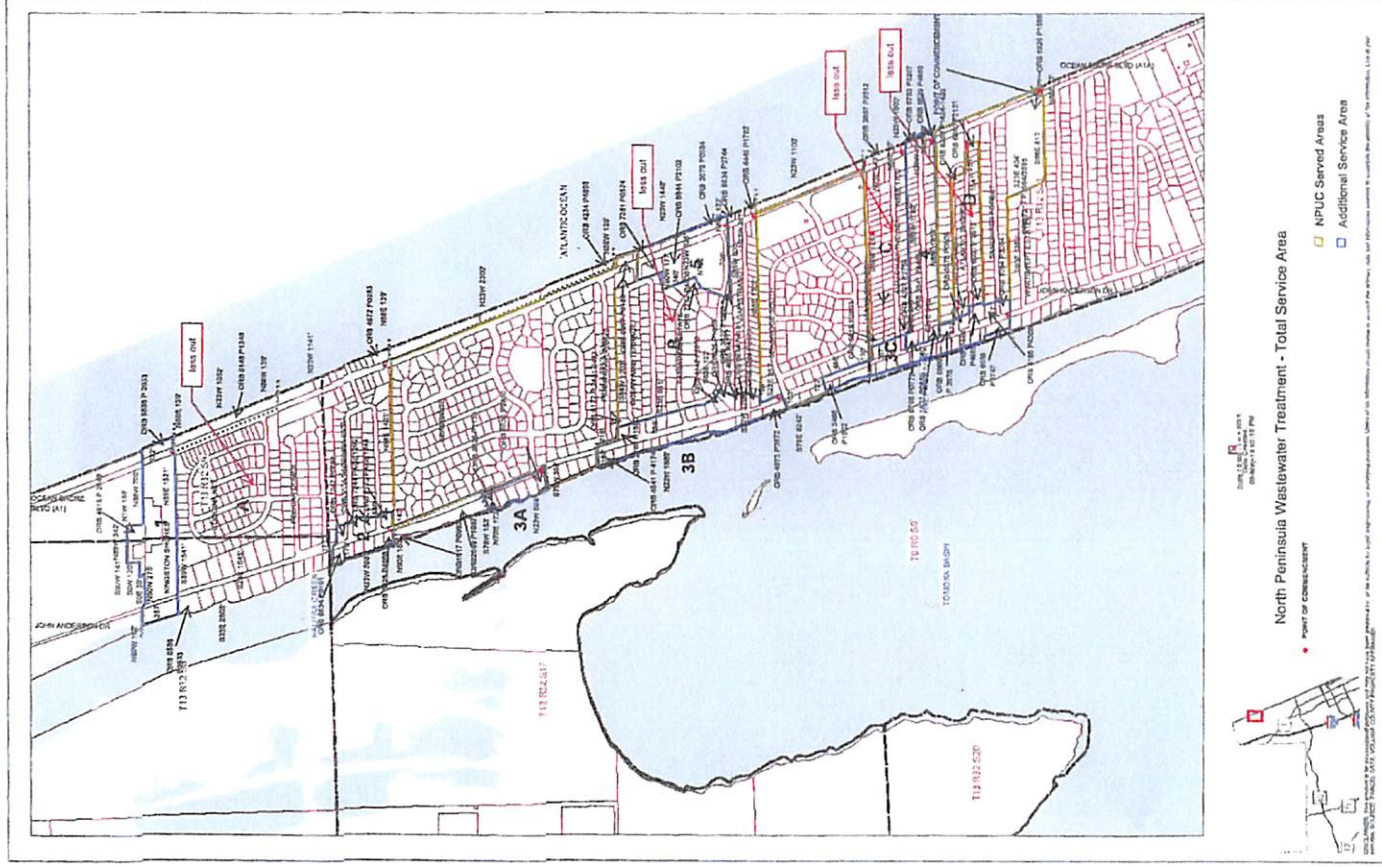
C

1. COMMENCE AT THE CENTERLINE OF OCEAN SHORE BLVD (A1A) 418 FEET SOUTH OF THE SOUTH LINE OF SECTION 16;
2. THENCE NORTH 88° EAST 97 FEET TO THE SHORELINE OF THE ATLANTIC OCEAN;
3. THENCE NORTH 23° WEST 443 FEET ALONG THE SHORELINE OF THE ATLANTIC OCEAN TO THE CENTERLINE OF VIA MADRID DRIVE;
4. THENCE SOUTH 88° WEST 1781 FEET ALONG THE CENTERLINE OF VIA MADRID DRIVE;
5. THENCE SOUTH 21° EAST 420 FEET TO THE SOUTHWEST CORNER OF PARCEL 21133201000820 OFFICIAL RECORD BOOK 4337 PAGE 2756;
6. THENCE NORTH 88° EAST 1700 FEET TO THE POINT OF COMMENCEMENT.

D

1. COMMENCE AT THE CENTERLINE OF MARLIN DRIVE 200 FEET NORTH 90° WEST OF THE INTERSECTION OF OCEAN SHORE BLVD (A1A) AND MARLIN DRIVE;

2. THENCE SOUTH 23° EAST 125 FEET ALONG THE EAST LINE OF PARCEL 21133202000650 OFFICIAL RECORD BOOK 6660 PAGE 2131 TO THE SOUTHEAST CORNER OF PARCEL 21133202000650 OFFICIAL RECORD BOOK 6660 PAGE 2131;
3. THENCE SOUTH 88° WEST 1541 FEET TO THE SOUTHWEST CORNER OF PARCEL 21133202000380 OFFICIAL RECORD BOOK 6600 PAGE 3613;
4. THENCE NORTH 23° WEST 127 FEET ALONG THE WEST SIDE OF PARCEL 21133202000380 OFFICIAL RECORD BOOK 6600 PAGE 3613 TO THE CENTERLINE OF MARLIN AVENUE;
5. THENCE NORTH 90° WEST 31 FEET ALONG THE CENTERLINE OF MARLIN AVENUE;
6. THENCE NORTH 23° WEST 120 FEET ALONG THE WEST SIDE OF PARCEL 21133202000310 OFFICIAL RECORD BOOK 4235 PAGE 1405 TO THE NORTHWEST CORNER OF PARCEL 21133202000310 OFFICIAL RECORD BOOK 4235 PAGE 1405;
7. THENCE NORTH 0° EAST 1340 FEET TO THE NORTHEAST CORNER OF PARCEL 21133202000080 OFFICIAL RECORD BOOK 6289 PAGES 1424-1426;
8. THENCE SOUTH 23° EAST 127 FEET ALONG THE EAST LINE OF PARCEL 21133202000080 OFFICIAL RECORD BOOK 6289 PAGES 1424-1426 TO THE CENTERLINE OF MARLIN AVENUE;
9. THENCE SOUTH 88° EAST 255 FEET ALONG THE CENTERLINE OF MARLIN AVENUE TO THE POINT OF COMMENCEMENT;



Item 9

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: September 29, 2016

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Ollila, Rome) *Lo: CAR PD EJD*
Office of the General Counsel (Janjic) *DT May for JSC*

RE: Docket No. 160120-GU – Petition for approval of tariff modifications to rider NCTS, the firm delivery and operational balancing agreement, and negative imbalance cash-out prices, by Peoples Gas System.

AGENDA: 10/11/16 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 8-Month Effective Date: 01/06/17 (60-day suspension date waived by the utility)

SPECIAL INSTRUCTIONS: None

RECEIVED - FPSC
2016 SEP 29 AM 9:21
COMMISSION CLERK

Case Background

On May 6, 2016, Peoples Gas System (Peoples or Company) filed a petition for approval of tariff modifications to its Natural Choice Transportation Service Rider (Rider NCTS), the Firm Delivery and Operational Balancing Agreement (Firm Delivery Agreement), and the cash-out price for negative imbalances in Rider NCTS and the Individual Transportation Service Rider (Rider ITS).

Rider NCTS allows certain customers to be part of a customer pool that uses a third party supplier or pool manager to meet their natural gas requirements. The pool manager assumes the responsibility for supplying the natural gas for its customer pool. Peoples receives the gas delivered by the pool manager and redelivers the gas to the customer's site. Rider ITS is available for larger commercial customers who choose their own pool manager and are not part

Docket No. 160120-GU
Date: September 29, 2016

of a customer pool. The Firm Delivery Agreement is required to be signed by pool managers selling gas to an NCTS pool and is a standard form in Peoples' tariff.

The Office of Public Counsel (OPC) requested interested party status in this docket on June 7, 2016. Peoples responded to staff's first data request on June 22, 2016. On June 24, 2016, a noticed informal meeting was held with participation by staff, representatives from Peoples, OPC, and other interested persons, including pool managers.¹ The purpose of the meeting was for Peoples to provide an overview of their filing, explain the calculations, and allow staff and interested persons to ask questions. Prior to the June 24 informal meeting, Tiger Natural Gas, Inc. filed comments expressing concerns regarding certain aspects of Peoples' petition and Infinite Energy, Inc. sent an email (which is in the docket file), also expressing concerns. On July 15, 2016, Peoples filed an amended petition and tariff, stating that the amended petition resulted in part from comments received at the informal meeting.

In both filings Peoples waived the 60-day suspension deadline pursuant to Section 366.06(3), Florida Statutes (F.S.). The proposed tariff pages are contained in Attachment 1. The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.05, and 366.06, F.S.

¹ Other interested entities included City of Jacksonville, Gas South, LLC, Infinite Energy, Inc., Interconn Resources, LLC, JEA, Peninsula Energy Services Company, Inc., South Star Energy Services, LLC d/b/a Florida Natural Gas, and Tiger Natural Gas, Inc.

Discussion of Issues

Issue 1: Should the Commission approve Peoples' tariff modifications filed in the amended petition?

Recommendation: Yes, the Commission should approve Peoples' tariff modifications filed in the amended petition, effective October 11, 2016. (Ollila, Rome)

Staff Analysis: Peoples' proposed modifications to Rider NCTS, the Firm Delivery Agreement, and the cash-out price of Riders NCTS and ITS are discussed below.

Rider NCTS

Rider NCTS was approved by the Commission in 2000, following the Commission's adoption of Rule 25-7.0335, Florida Administrative Code (F.A.C.).² Rule 25-7.0335, F.A.C., requires local distribution companies, such as Peoples, to make gas transportation service available to non-residential customers. Rider NCTS is a voluntary program that allows residential customers with an annual consumption of 2,000 or more therms and non-residential firm customers to use a pool manager to meet their natural gas requirements. There are currently 18 pool managers qualified to serve Peoples' NCTS customer pools. Peoples stated that the number of NCTS customers has grown from 3,398 in October 2000 to 23,584 in April 2016. NCTS customers consume about 17 percent of system throughput and are not subject to Peoples' purchased gas adjustment (PGA) charges, whereas sales customers who buy their gas from Peoples are subject to PGA charges.

For 2016, Peoples' total capacity cost (i.e., the reservation charges Peoples pays pipeline companies, based on how much capacity Peoples reserves) is \$95 million. Peoples provides a monthly release of upstream pipeline capacity to the NCTS pool managers and charges the pool managers for released capacity at the weighted average cost of capacity (average capacity cost).³ Peoples also allocates capacity to shippers outside the NCTS pool, such as shippers who contract directly with ITS transportation customers. Any unallocated capacity and its associated cost are assigned to the PGA. NCTS pool managers use the pipeline capacity released to them by Peoples to transport the gas to the customers in their customer pool. While the Commission does not regulate the prices pool managers charge their customers, staff believes that pool managers recover from the customers in their pool the cost of the gas and the cost of the upstream pipeline transportation.

As part of its total capacity portfolio, Peoples also holds capacity to cover peak system demand and future demand growth. The Company currently recovers the costs associated with capacity that is held for peak demand system requirements and future growth through the PGA mechanism. Furthermore, according to the Company, when upstream capacity is acquired, it must sometimes be grown into (i.e., it may be necessary to acquire additional capacity before the anticipated growth fully materializes). Because NCTS customers do not pay the PGA, they do not pay any of the cost of upstream capacity held for peaking and future growth. According to

² Order No. PSC-00-1814-TRF-GU, issued October 4, 2000 in Docket No. 000810-GU, *In re: Petition for approval of modifications to tariff provisions governing transportation of customer-owned gas and tariff provisions to implement Rule 25-7.0335, F.A.C., by Tampa Electric Company d/b/a/ Peoples Gas System.*

³ The weighted average cost of capacity is also known by its abbreviation, WACOC.

Peoples, the growth in NCTS customers has caused the PGA customers to pay a disproportionate share of the costs of peaking and future growth capacity.

In this filing Peoples therefore proposes to modify Rider NCTS to increase the rate at which Peoples releases upstream capacity to NCTS pool managers (and passed on to their customers). The increased rate would include a portion of peaking and future growth capacity costs, so that those costs are more equitably allocated between PGA customers and transportation customers in the NCTS pool. According to Peoples, the methodology change is revenue neutral to the Company. The proposed change to the capacity release pricing methodology is discussed below.

Recovery of Costs of Capacity Held for Peaking and Future Growth

Peoples' proposed change to its capacity release pricing mechanism is the application of a Load Factor Adjusted Release Rate, which is comprised of the average capacity cost plus a Load Factor Adder (adder). The adder represents the NCTS customers' portion of the upstream capacity costs associated with providing peaking and future growth currently embedded in the PGA.

Peoples provided work papers in response to staff's first data request No. 3 to illustrate how Peoples currently calculates the average capacity cost, which Peoples is not proposing to change.⁴ For May 2016 Peoples' average capacity cost rate was 58.1 cents per MMBtu.⁵ The proposed adder would be derived from dividing the projected NCTS customers' share of the upstream capacity costs associated with providing peaking and future growth by the projected NCTS customer throughput.

In response to staff's first data request No. 3, Peoples' calculated an initial adder of 14 cents per MMBtu, based on May 2016 data. By combining this adder with the average capacity cost rate of 58.1 cents per MMBtu, the resulting Load Factor Adjusted Release Rate would be approximately 72.1 cents per MMBtu. For an NCTS customer using 2,000 therms per year, this would result in an annual increase of approximately \$28.⁶

Peoples also stated that the corresponding PGA reduction would be approximately 4 cents per therm. For a typical residential (i.e., PGA) customer using about 240 therms per year, Peoples' proposed application of the Load Factor Adjusted Release Rate mechanism would result in an annual reduction of approximately \$9.60.

According to Peoples, the average capacity cost will continue to be calculated monthly and the adder will be calculated annually, in January. Factors that could vary the adder include the addition of new capacity to Peoples' portfolio, additional capacity releases to customers, a change in the swing service charge, or upstream transporter rate changes.

⁴ Average capacity cost (also known as WACOC) = (total capacity portfolio value – total capacity value released to customers other than NCTS pool managers)/remaining contracted capacity volume MMBtu/month.

⁵ Staff notes that one MMBtu equals one million British thermal units or one dekatherm or 10 therms.

⁶ The annual increase is calculated as follows: $(2,000 \times \$0.14) / 10 = \28 .

Firm Delivery Agreement

Peoples’ proposed modifications to the Firm Delivery Agreement include changes in terminology, cash-out prices for negative monthly imbalances, and a modification that permits pool managers to request an increase in the quantity of gas released during the month.

Terminology

Peoples acquired additional upstream capacity on pipelines on which it did not hold capacity at the inception of Rider NCTS. The current Firm Delivery Agreement refers to only one particular pipeline (Florida Gas Transmission Company). The proposed tariff would change the references to upstream pipelines to “Transporter,” a more generic term. According to Peoples, this proposed change would eliminate the need for administrative tariff changes in the event additional pipelines enter the Florida transportation market in the future.

Cash-out Price for Negative Monthly Imbalance Amounts

A negative monthly imbalance results when the customer pool’s gas consumption exceeds what the pool manager delivered that month. Customer pools in a negative monthly imbalance posture have consumed gas that Peoples had acquired for its system supply or PGA customers. The proposed tariff would change the cash-out prices for negative monthly imbalances. These revisions would include changing the usage rates from the Florida Gas Transmission Company (FGT) FTS-1 usage rate to the FTS-3 usage rate, and changing the capacity reservation charges by replacing Peoples’ average capacity cost with the FGT FTS-3 maximum reservation charge. Table 1-1 displays the current and proposed rates/charges.

**Table 1-1
 Current and Proposed Usage Rates and Reservation Charges**

Current Charge Description	Current Rate per MMBtu	Proposed Charge Description	Proposed Rate per MMBtu
FTS-1 Usage Rate	1.56 cents	FTS-3 Usage Rate	0.23 cents
Average Capacity Cost (as of May 2016)	58.1 cents	FTS-3 Reservation Charge	132.99 cents

Source: Peoples’ filing in Docket No. 160120-GU

As Table 1-1 demonstrates, under Peoples’ proposed tariff, the usage rate would decrease from 1.56 cents to 0.23 cents and the reservation charge would increase from 58.1 cents to 132.99 cents, resulting in an overall increase of 73.56 cents per MMBtu. Peoples asserts that the higher cash-out price is intended as a deterrent to negative monthly imbalances.

Quantity Changes to Upstream Capacity During the Month

Currently, by the 20th of the month, pool managers are allowed to request a decrease in the quantity of the upstream capacity released by Peoples to the pool manager to deliver gas for the customer pool. In its amended petition, Peoples stated that as a result of the informal meeting, it proposes that a pool manager also be permitted to request an increase in the quantity of upstream

capacity released to the pool manager for the month. According to Peoples, adding the ability to request an increase during the month should assist pool managers in avoiding negative monthly imbalance cash-outs.

Rider ITS Cash-out Price

Rider ITS is applicable to firm or interruptible individual transportation service for any non-residential customer who uses 182,500 therms or more per year. Peoples proposes that the cash-out prices under Rider ITS be revised so that they continue to be identical to the proposed cash-out prices for Rider NCTS pool managers, as described in Table 1-1 above.

Conclusion

Staff believes that the proposed changes are reasonable, specifically:

- As the number of NCTS customers has grown, PGA customers alone have paid for the cost of reserving upstream capacity for peaking and future demand which benefits both PGA and NCTS customers. Staff believes the proposed change to the allocation methodology is reasonable and will result in a more equitable allocation of capacity costs associated with peaking and future growth across customer classes.
- Staff believes using the more generic term, transporter, is reasonable and likely to promote administrative efficiency by eliminating tariff filings as new pipelines are added.
- Negative monthly imbalances result when NCTS and ITS customers consume gas originally acquired for Peoples' system supply or PGA customers. Staff believes that an increase in the cash-out price is a deterrent, and therefore, is reasonable.
- The opportunity for pool managers to increase the quantity of upstream capacity released during the month will allow pool managers to better manage their gas requirements and thus, mitigate the potential effect of the increased cost of negative cash-outs.

Staff recommends that the Commission approve Peoples' tariff modifications filed in the amended petition, effective October 11, 2016.

Issue 2: Should this docket be closed?

Recommendation: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Janjic)

Staff Analysis: If Issue 1 is approved and a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Sixth Revised Sheet No. 7.803-1
Cancels Fifth Revised Sheet No. 7.803-1

NATURAL CHOICE TRANSPORTATION SERVICE (Continued)

2. For purposes of this Rider, "Pool Manager" means a person or entity which has:
- a. Entered into agreements to sell Gas to, or procure Gas for, the Customer accounts comprising an NCTS Customer Pool;
 - b. Executed and delivered to Company after approval of this Rider by the Commission an unmodified Firm Delivery and Operational Balancing Agreement (in the form set forth on Sheets 8.119 through 8.119-8 of this tariff) for an initial term of not less than one (1) year, obligating such person or entity to deliver Gas to Company on a firm basis for the accounts comprising an NCTS Customer Pool, resolve directly with the Company imbalances between (i) the quantities of Gas delivered to Company for the accounts in the NCTS Customer Pool and (ii) the quantities of Gas taken by such NCTS Customer Pool, and establish and maintain credit pursuant to the terms of such agreements; and
 - c. Executed and delivered to Company after approval of this Rider by the Commission an unmodified Master Capacity Release Agreement providing for such person's or entity's acquisition from Company of primary firm interstate pipeline transportation capacity, at a reservation charge equivalent to the Load Factor Adjusted Release Rate, to be used for the transportation and delivery to Company of Gas purchased by an NCTS Customer Pool receiving service pursuant to this Rider. The Load Factor Adjusted Release Rate may be varied as determined by Company from time to time for purposes of recovering from Customer Pools receiving service under this Rider Company's cost of the capacity acquired by Pool Manager plus an appropriate allocation of Company's costs of upstream pipeline capacity held by the company for peaking and future growth. Additional revenue derived by the Company from the Load Factor Adjusted Release Rate will be used to reduce costs recovered through the Purchased Gas Adjustment Clause.

Subject to the provisions of Special Condition 3, additional Customer accounts may be added to an NCTS Customer Pool administered by a Pool Manager at any time. A Pool Manager may be disqualified by Company from providing service hereunder in accordance with the Firm Delivery and Operational Balancing Agreement.

Issued By: G. L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Fourth Revised Sheet No. 7.805-6
Cancels Third Revised Sheet No. 7.805-6

INDIVIDUAL TRANSPORTATION SERVICE Rider ITS (Continued)

(c) If a Remaining Imbalance is Negative (*i.e.*, Actual Takes exceed Scheduled Quantities), Company shall sell the same to Customer (and Customer shall purchase the same from Company) at a price per Therm (the "Unit Price") equal to the sum of (i) the highest average of weekly prices for spot Gas delivered to FGT at Mustang Island (Tivoli), Texas, Vermillion Parish, Louisiana, or St. Helena Parish, Louisiana, as reported in *Natural Gas Week*, for the Month in which the Monthly Imbalance Amount accumulated, multiplied by the applicable factor set forth below:

<u>Imbalance Level</u>	<u>Factor</u>
0% to 5%	1.00
Greater than 5% to 20%	1.10
Greater than 20% to 40%	1.20
Greater than 40%	1.50

and (ii) maximum reservation rate for FGT FTS-3 capacity plus the FGT FTS--3 usage rate (including any applicable surcharges). The total amount due Company pursuant to this paragraph (c) shall be the product of the Unit Price (calculated as set forth herein) and the Remaining Imbalance. The Imbalance Level shall be calculated by dividing the Remaining Imbalance by the Scheduled Quantities for the Month in which the Monthly Imbalance Amount accumulated.

(d) Company's statement for a Remaining Imbalance calculated pursuant to paragraph (b) above shall show a credit for the amount payable by Company to Customer pursuant to paragraph (b), such credit to be applied on Company's bill rendered to Customer pursuant to the Gas Transportation Agreement for the Month following the Month in which the amount payable by Company to Customer pursuant to paragraph (b) was incurred. All amounts not so credited by Company shall be considered delinquent.

(e) Company's statement for a Remaining Imbalance calculated pursuant to paragraph (c) above shall be paid by Customer in accordance with the Gas Transportation Agreement. All amounts not so paid by Customer shall be considered delinquent.

7A. Correction of Imbalances at PGS Receipt Points that Are Gulfstream Delivery Points. If Company is the delivery point operator at a PGS Receipt Point that is a Gulfstream delivery point, Customer shall resolve with Company any Monthly Imbalance Amount attributable to Customer in accordance with the provisions of Special Condition 7 above. In addition, Customer shall bear sole responsibility for, and all costs associated with, the resolution with Gulfstream of imbalances (except imbalances caused by the acts or omissions of Company) resulting from Customer's nominations for deliveries of Gas at any such PGS Receipt Point. If Company is not the delivery point operator at a PGS Receipt Point that is a Gulfstream delivery point, the provisions of Special Condition 7 above shall not apply to the resolution of Monthly Imbalance Amounts at such PGS Receipt Point, and Customer shall bear sole responsibility for, and all costs associated with, the resolution with Gulfstream of imbalances (except imbalances caused by the acts or omissions of Company) resulting from Customer's nominations for deliveries of Gas at any such PGS Receipt Point.

Issued By: G. L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Third Revised Sheet No. 8.119
Cancels Second Revised Sheet No. 8.119

FIRM DELIVERY AND OPERATIONAL BALANCING AGREEMENT

This Firm Delivery and Operational Balancing Agreement (the "Agreement") is made and entered into as of the ___ day of _____, 20___, by and between Peoples Gas System, a division of Tampa Electric Company, a Florida corporation ("PGS"), and _____, a _____ ("Pool Manager").

WITNESSETH:

WHEREAS, PGS operates a natural gas distribution system in the State of Florida, and transports Gas for industrial and commercial customers;

WHEREAS, PGS has enabled Pool Manager to enter into contract(s) pursuant to which Pool Manager will sell Gas to Customer Accounts comprising the Customer Pool (as hereinafter defined) by agreeing to transport such Gas from such points of receipt on PGS's distribution system to Customer Accounts without requiring such accounts to install and pay for telemetry or to individually balance Gas received and delivered by PGS for such accounts;

WHEREAS, Pool Manager has entered into a Master Capacity Release Agreement with PGS providing for PGS's release to Pool Manager of Firm transportation capacity rights on the upstream pipeline systems serving the PGS distribution system for use by Pool Manager in delivering Gas to PGS for the Customer Accounts;

WHEREAS, in order to maintain the operational integrity of its system, PGS must assure that Gas to be transported to the accounts in the Customer Pool is delivered to PGS at the times and in the quantities desired by such accounts, and that for each Month Pool Manager's ADQ (as herein defined) equals the quantity of Gas consumed by the Customer Pool; and

WHEREAS, PGS will transport Gas sold by Pool Manager and received by PGS for the Customer Pool to the Customer Accounts.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, PGS and Pool Manager hereby agree as follows:

ARTICLE I - DEFINITIONS

As used herein, the following terms have the meanings set forth below. Capitalized terms used, but not otherwise defined, herein have the meanings given in PGS's FPSC Tariff.

"Actual Takes" means, for a specified period of time, the quantity of Gas passing through the meter(s) of the Customer Accounts during such specified period of time.

"ADQ" or "Aggregate Daily Quantity" means, for each Day, the quantity of Gas established as such by PGS pursuant to Section 4.1.

"Alert Day" means an Alert Day as defined in Transporter's Tariff.

"Business Day" has the meaning given in the Capacity Release Agreement.

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Fourth Revised Sheet No. 8.119-1
Cancels Third Revised Sheet No. 8.119-1

"Capacity Release Agreement" means the Master Capacity Release Agreement between PGS and Pool Manager dated as of even date herewith, as the same may be amended from time to time.

"Customer" means the person or entity responsible for a Customer Account.

"Customer Account" means each account included in the Customer Pool.

"Customer Pool" means, collectively, the Customer Accounts identified by PGS pursuant to Section 4.1.

"Day" has the meaning given in the Capacity Release Agreement.

"FGT" means Florida Gas Transmission Company, a Delaware corporation, and its successors and assigns.

"FGT's FERC Tariff" means FGT's effective FERC Gas Tariff, as amended, supplemented or superseded from time to time.

"Firm" means: (i) with respect to the sale and purchase of Gas, that Pool Manager is obligated to sell and deliver and a Customer is obligated to purchase and receive the quantity of Gas specified, except as excused by an event of Force Majeure, and (ii) with respect to transportation, that Transporter of Gas is obligated to make available a quantity of pipeline capacity, without interruption except as excused by an event of force majeure under Transporter's Tariff, sufficient to enable Pool Manager to perform its obligations under this Agreement.

"Gas" means "Gas" as defined in Transporter's Tariff.

"Month" has the meaning given in the Capacity Release Agreement.

"Monthly Imbalance Amount" means, for a Month, the positive or negative whole number difference determined by subtracting the Actual Takes for such Month from the sum of the ADQs for such Month (less the Retainage).

"OFO" means an Operational Flow Order as defined in Transporter's Tariff.

"Primary Delivery Point(s)" means the Transporter Delivery Point(s) identified as the Primary Transporter Delivery Points in the Capacity Release Agreement, subject to modification by PGS from time to time.

"Retainage" means 0.35% of Gas received by PGS for the account of Customer at the Primary Delivery Point(s) to account for lost and unaccounted Gas between such point(s) and the meters of the Customer Accounts.

"Transporter" means, for purposes of this Agreement and the Capacity Release Agreement, individually or collectively as the context requires, any upstream pipeline(s) on which Firm Transportation Capacity Rights are being temporarily released by PGS to Pool Manager pursuant to the Capacity Release Agreement for purposes of serving the Customer Pool.

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Fifth Revised Sheet No. 8.119-2
Cancels Fourth Revised Sheet No. 8.119-2

"Transporter Agreement" means, for purposes of this Agreement and the Capacity Release Agreement, the applicable Service Agreements for Firm Transportation Service (however named or titled) between Transporter and PGS in effect from time to time, including (a) Transporter's currently effective applicable Rate Schedule(s) and (b) General Terms and Conditions filed with the FERC or the FPSC (and incorporated in each said agreement by reference), as such agreements, rate schedules and general terms and conditions may be amended from time to time, and any successor firm agreement(s), firm rate schedule(s) or general terms and conditions applicable thereto.

"Transporter's Tariff" means, for purposes of this Agreement and the Capacity Release Agreement, Transporter's effective FERC or FPSC gas tariff applicable to firm transportation service under the Transporter Agreement, as such tariff may be amended from time to time.

ARTICLE II - TERM; PROGRAM CHANGES

Section 2.1 Term. This Agreement shall be effective on the date first written above. The term of this Agreement shall commence on the first Day of the Month for which PGS first delivers to Pool Manager a list of Customer Accounts as required by Section 4.1(a) (the "Effective Date") and shall continue, unless earlier terminated pursuant to this Agreement, until the first anniversary of the Effective Date (the "Initial Term"). Thereafter, the term of this Agreement shall be extended for additional periods of one year unless either party gives written notice, not less than 90 days prior to the expiration of the Initial Term (or any subsequent period for which this Agreement has been extended) to the other party, of termination.

Section 2.2 Program Changes. Pool Manager understands that PGS is entering into this Agreement as part of a program approved by the FPSC. PGS reserves the right to file with the FPSC modifications to such program (including the terms and conditions of this Agreement). PGS shall give Pool Manager reasonable notice of any such filing. In the event the FPSC approves modifications to such program (including any terms or conditions set forth in this agreement), such modifications shall become binding on the parties hereto as of the date on which approval thereof by the FPSC becomes effective. Notwithstanding any other provision of this Agreement, PGS's obligations hereunder shall at all times be subject to the lawful orders, rules and regulations of the FPSC, and to the terms and conditions of PGS's FPSC Tariff.

ARTICLE III - NON-PAYMENT BY CUSTOMER

Pool Manager may terminate its obligation to deliver Gas hereunder for a Customer Account for non-payment of charges due Pool Manager by giving five days' written notice to PGS prior to the first Day of the Month as of which such termination is to be effective. Any such notice shall be accompanied by (i) documentary evidence of the Customer's failure to make payment for a period of at least 60 days, (ii) Pool Manager's affidavit that it has made commercially reasonable and good faith efforts to collect the amount due and (iii) a non-refundable termination fee of \$30.00.

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
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ARTICLE IV - FIRM DELIVERY

Section 4.1 Pool Manager's Obligation.

(a) PGS shall deliver to Pool Manager each Month, at least five (5) Days prior to FGT's deadline for posting capacity releases for the first Day of the following Month, (i) a list of the Customer Accounts comprising the Customer Pool and (ii) the Aggregate Daily Quantity ("ADQ") of Gas required to meet the needs of the Customer Pool for such following Month. Subject to the provisions of Section 2.2, on each Day during the term of this Agreement, unless excused by Force Majeure or under Section 5.2 of this Agreement, Pool Manager agrees to cause to be delivered to PGS, on a Firm basis, the ADQ for the Customer Pool.

Delivery of all such Gas shall be at the Primary Delivery Point(s), and pathed along the Transporter pipeline, as established by the Transporter pipeline capacity released to the Pool Manager under any Capacity Release Agreement and released under the applicable FERC and Transporter rules and regulations.

(b) Pool Manager shall deliver to PGS daily, a nomination of the quantity of Gas to be delivered at the Primary Delivery Point(s) for the Customer Pool. Pool Manager's Nomination for Gas to be made available for delivery on the first Day of any Month shall be given by 10 a.m. on the second Business Day prior to the Day on which a nomination must be delivered to Transporter for receipt of deliveries at the PGS Receipt Point(s) on such Day. Daily Nominations for Gas to be made available for delivery other than on the first Day of a Month shall be given to PGS by 10 a.m. on the Business Day prior to the Day on which a nomination must be delivered to Transporter for the receipt of deliveries at the PGS Receipt Point(s) on such Day. The following nomination information is required for a valid nomination:

1. The Pool Manager's downstream delivery pool number under which service is being nominated;
2. The receipt location including applicable DRN and upstream pipeline name, upstream pipeline package ID, including Pool Manager's PGS downstream delivery pool number, and quantity in Therms of Gas to be tendered at each PGS receipt point;
3. The downstream delivery pool number under which service is being nominated, and quantity in Therms of gas to be delivered for the Pool Manager's supply pool;
4. A beginning and ending date for each nomination;
5. The upstream contract identifier.

Pool Manager understands that PGS is subject to FERC regulations that may require PGS to post certain Pool Manager information on a publicly accessible website. The submission by Pool Manager of a required nomination shall constitute Pool Manager's authorization to PGS to publicly disclose any information (including but not limited to the information provided in such nomination) required by applicable law or regulation to be disclosed by PGS.

(c) Pool Manager shall pay to PGS every month the Pool Administration Fee consisting of (i) \$142.00, plus (ii) \$0.91 times the number of Customer Accounts contained in the Customer Pool.

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
a Division of Tampa Electric Company
Original Volume No. 3

Fourth Revised Sheet No. 8.119-4
Cancels Third Revised Sheet No. 8.119-4

Section 4.2 Pool Manager's Failure to Perform.

(a) If (unless excused by Force Majeure or excused according to section 5.2 of this Agreement) Pool Manager fails to cause to be delivered on any Day any portion (the "Shortfall Quantity") of the quantity of Gas required to be delivered to PGS pursuant to Section 4.1, Pool Manager shall pay to PGS (in dollars per MMBtu), for the Shortfall Quantity, an amount equal to five (5) times the highest price, for the calendar day on which such Day commences, for spot gas delivered to a Gulf Coast pipeline, as published in Gas Daily.

(1) If requested by Pool Manager, and agreed to by PGS, PGS will sell gas supply and interstate pipeline capacity on a delivered basis to the Pool Manager to offset a portion of the "Shortfall Quantity." The price for said "Backup Gas" shall be as mutually agreed between the parties plus a \$100 administration fee per Day that "Backup Gas" is supplied. PGS shall have no obligation to provide said "Backup Gas" and will do so only if the same can be provided without detriment to any other customer on the PGS distribution system.

(2) The Pool Manager's "Shortfall Quantity" will be reduced by the quantity of any "Backup Gas" provided by PGS.

(b) If Pool Manager causes to be delivered on any Day a quantity of Gas exceeding the quantity required to be delivered to PGS pursuant to Section 4.1, Pool Manager shall sell to PGS, and PGS shall purchase from Pool Manager, such excess Gas (the "Excess Quantity") at a purchase price equal to:

(1) fifty percent (50%) of the price reported in *Natural Gas Week* for the beginning of the Month in which Pool Manager delivered such Excess Quantity, for spot gas delivered to FGT at Tivoli, Texas; minus

(2) the sum of any balancing, scheduling, alert day, OFO, or other penalties or charges incurred by PGS as a result of Pool Manager's delivery of the Excess Quantity; minus

(3) a fee of \$0.15 per MMBtu as a liquidated amount representing incidental damages. Pool Manager agrees that it will not bill any Customer for any Excess Quantity which is purchased by PGS from Pool Manager pursuant to this paragraph (b).

(c) Billing and payment of any amounts due either party pursuant to this section shall be in accordance with Article VI.

Section 4.3 Termination. If (i) in any three-Month period, unless excused by Force Majeure, Pool Manager fails to cause to be delivered on any three (3) Days any portion of the quantity of Gas required to be delivered to PGS pursuant to Section 4.1, or (ii) Pool Manager fails to timely pay any amount due PGS pursuant to Section 4.2, or (iii) Pool Manager is delinquent in making payment of other amounts due hereunder more than three (3) times in any 12-Month period, or (iv) PGS determines that Pool Manager has delivered to PGS a letter of authorization not actually signed by the Customer named therein, PGS may, in its sole discretion, without incurring any liability to Pool Manager or any Customer, terminate this Agreement by facsimile notice of termination to Pool Manager and notice to each Customer Account in the Customer Pool, such termination to be effective when specified in such notices; provided, however, that PGS's exercise of the remedy forth in this section shall not be construed as a waiver of PGS's rights under either of Section 4.2 or

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
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Section 5.3. In addition, in the event of a determination by PGS pursuant to (iv) above, PGS may require that any future Customer letter of authorization submitted by Pool Manager be notarized.

Section 4.4 Pool Manager's Load Balancing Provisions. By the 18th Day of each calendar month, PGS will provide the Pool Manager with the meter reads that have occurred as of the 15th Day for the given billing month for Customer Accounts in the Customer Pool. By the 20th Day of that calendar month, the Pool Manager may request, and PGS may grant at its sole and reasonable discretion, one increase or reduction to the ADQ to be delivered by the Pool Manager for the Customer Pool for the remainder of the calendar month. If such request is granted, PGS and the Pool Manager will arrange for the release or recall of Transporter capacity and the associated change to the scheduled quantity of natural gas commodity according to the applicable FERC rules and regulations and the tariff provisions of the applicable Transporter. Should the aforementioned dates fall on a weekend or recognized federal holiday, the requirement will fall on the following Business Day.

Section 4.5 Establishment of Credit.

(a) Pool Manager shall establish credit prior to commencing deliveries of Gas hereunder (and shall maintain such credit during the term hereof) by one of the following methods:

- (1) making a cash deposit with PGS;
- (2) furnishing an irrevocable letter of credit from a bank, or a surety bond issued by a company with an A.M. Best Rating Service rating of B/VI or higher for bonds up to \$50,000 in amount and a rating of A-VII or higher for bonds over \$50,000 in amount;
- (3) possessing and maintaining a Standard & Poor's Long Term Debt Rating of A- or better, a Moody's rating of A3 or better, or a comparable rating by another nationally recognized rating organization acceptable to PGS;
- (4) if Pool Manager's debt is not rated, by demonstrating to PGS (pursuant to the provisions of paragraph (b) below) Pool Manager's creditworthiness (*i.e.*, that Pool Manager's financial strength and stability are adequate); or
- (5) if Pool Manager's parent company or a third-party establishes credit pursuant to subparagraphs (3) or (4) above, such parent company or third-party may serve as guarantor of Pool Manager's obligations under this Agreement.

(b) If Pool Manager seeks to establish credit pursuant to paragraph (a) (4) above, Pool Manager shall furnish to PGS Pool Manager's audited financial statements (accompanied by the opinion of independent certified public accountants or chartered accountants of recognized national or regional standing) for at least the two most recently completed fiscal years. In evaluating Pool Manager's creditworthiness, PGS will consider Pool Manager's tangible net worth, interest coverage ratio, ratio of long term debt to tangible net worth, net cash flow, and other known factors relating to Pool Manager's creditworthiness. If credit is established by Pool Manager pursuant to paragraph (a)(4) above, (i) PGS may periodically review its determination of creditworthiness to assure that no material adverse changes in Pool Manager's financial condition have occurred, and (ii) Pool Manager shall annually during the term of this Agreement, within ninety (90) days following the end of Pool Manager's fiscal year, furnish to PGS Pool Manager's audited financial statements for the

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
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year most recently ended (accompanied by the opinion of independent certified public accountants or chartered accountants of recognized national or regional standing). If Pool Manager's credit rating or financial statements are, or during the term of this Agreement become, unacceptable to PGS, or Pool Manager makes any payment required by this Agreement with a check which is dishonored by a bank, Pool Manager may establish credit only pursuant to paragraph (a)(1) or (a)(2) above. The provisions of this paragraph (b) shall apply to Pool Manager's parent company (or any third-party) in the event such parent company or third-party seeks to establish credit pursuant to paragraph (a)(4) above.

(c) The amount of any cash deposit, letter of credit or surety bond (collectively, "Security") furnished pursuant to paragraph (a)(1) or (a)(2) above shall be equal to the product of (i) the ADQ (in MMBtu) and (ii) \$150.00. PGS may require of Pool Manager, upon written notice of not less than fifteen (15) Days, new Security (if previously waived or returned), or additional Security, in order to more accurately reflect the amounts which may become due PGS from Pool Manager under Section 4.2, the amount of such Security to be determined as stated above.

(d) Upon termination of this Agreement, PGS shall credit the amount of any cash deposit against the final amount (if any) due PGS from Pool Manager hereunder, and the balance, if any, shall be returned to Pool Manager no later than fifteen (15) Days after the final bill hereunder is rendered (or was to be rendered).

(e) In no event will PGS confirm nominations of Pool Manager unless Pool Manager has established, and continues to maintain, credit as required by this Section 4.5.

(f) Pool Manager shall pay to PGS a non-refundable fee of \$250.00 for the cost incurred by PGS for the initial assessment of creditworthiness of any person hereunder pursuant to paragraph (a)(4) above. Pool Manager shall also pay the cost incurred by PGS for the review or re-establishment of creditworthiness in the event the Pool Manager's creditworthiness decreases to unacceptable levels or PGS incurs extraordinary expenses to review creditworthiness.

Section 4.6 Pool Manager's Obligations. If any act or omission of Pool Manager causes PGS to incur penalties or other expenses or liabilities for unauthorized overrun Gas, for imbalances on a pipeline system, for a failure to comply with a pipeline tariff, or for a failure to comply with a curtailment notice or to take deliveries as scheduled, Pool Manager will indemnify and reimburse PGS for all such amounts which the acts or omissions of Pool Manager or its supplier have caused PGS to incur. Nothing herein shall be deemed to foreclose PGS from employing other remedies, including cessation of deliveries, and PGS reserves the right to do so, for the unauthorized consumption of Gas.

ARTICLE V - IMBALANCES; INTERRUPTION OF DELIVERIES

Section 5.1 Interruption of Deliveries. Pool Manager recognizes that PGS is entitled to curtail or interrupt deliveries of Gas to the Customer Pool pursuant to PGS's FPSC Tariff. Pool Manager agrees that it will not bill any Customer for any quantities of Gas which are not consumed by such Customer due to interruption by PGS. If deliveries of Gas to a Customer Account are curtailed or interrupted pursuant to PGS's FPSC Tariff, Pool Manager shall sell to PGS, and PGS shall purchase from Pool Manager, that portion of the ADQ that is curtailed or interrupted. PGS shall notify Pool Manager with respect to each notice of curtailment or interruption issued pursuant to PGS's FPSC Tariff. After receiving such notice from PGS, unless otherwise directed by PGS, Pool Manager shall not curtail, cause to be curtailed, redirect, or cause to be redirected, any of the Customer Pools

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
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ADQ in a manner which would have the effect of reducing the quantities of Gas delivered at the Primary Delivery Point(s). For all Gas sold by Pool Manager to PGS pursuant to this section, PGS shall pay to Pool Manager an amount per MMBtu equal to the sum of (i) the price for spot Gas delivered to FGT at Vermillion Parish, Louisiana, as reported in the "Daily Price Survey" in *Gas Daily* for the Day in which PGS purchased the Gas, and (ii) the 100% load factor rate at which Pool Manager acquired the Released Capacity (as defined in the Capacity Release Agreement) from PGS pursuant to the Capacity Release Agreement. PGS warrants that it will not at any time exercise its right to interrupt deliveries of Gas to the Customer Pool pursuant to PGS's FPSC Tariff based solely on a determination that Gas being delivered by Pool Manager to the Primary Delivery Point(s) is less expensive than Gas which is, at the time of PGS's exercise of such right, otherwise available to PGS. For any Month in which PGS purchases Gas from Pool Manager pursuant to this section, PGS shall make payment of the amount payable to Pool Manager on or before the last Day of the Month following the Month in which PGS purchased such Gas.

Section 5.2 Mutually Beneficial Transactions. Pool Manager recognizes that PGS maintains the operation and system integrity of the PGS distribution system on a daily basis. Pool Manager also recognizes that as Delivery Point Operator for the Transporter interconnects, PGS is subject to the rules and regulations of the applicable Transporter with regard to operational flow rates, pressures and penalties. As such, PGS may have need for the Pool Manager to vary its daily delivery from the agreed to ADQ. On those occasions, PGS may request, at its sole discretion, and the Pool Manager may agree to, a change to the Pool Manager's level of Gas supply and interstate pipeline capacity. Terms and conditions of such transaction will be agreed upon at the time of the transaction and will be recorded and confirmed in writing within two business days of the transaction.

Section 5.3 Correction of Imbalances. PGS and Pool Manager intend that all Monthly Imbalance Amounts shall be resolved as of the end of each Month. At the end of each Month, the Monthly Imbalance Amount (if any) incurred during such Month shall be resolved in kind or cash. PGS will provide Pool Manager with a statement of the Monthly Imbalance Amount by noon on the 10th Day of the following Month, and post a list of all Monthly Imbalance Amounts on its Internet web site (or otherwise if such web site is not available). Pool Manager shall have a Book-Out Period until the 14th Day of such following month to utilize the Book-Out provisions in Section 5.4 below. Pool Manager and PGS shall utilize the provisions in Section 5.5 below to resolve in cash all Monthly Imbalance Amounts (or any portions thereof) remaining after the close of the Book-Out Period.

Section 5.4 Book-Out. Pool Manager may, during the Book-Out Period, net Positive Monthly Imbalance Amounts (as hereinafter defined), or portions thereof, with Negative Monthly Imbalance Amounts (as hereinafter defined), or portions thereof, of other Pool Managers or other Customers, and may net Negative Monthly Imbalance Amounts, or portions thereof, with Positive Monthly Imbalance Amounts of other Pool Managers or Customers. A Pool Manager availing itself of the provisions of this paragraph shall submit a completed Book-Out Agreement, in form designated by PGS, via facsimile or mail to PGS before the end of the Book-Out Period. Such agreement shall not be deemed effective unless signed by an authorized representative of each Pool Manager or Customer which is a party thereto. PGS shall have no responsibility or liability for incorrect, incomplete, late, lost or illegible Book-Out Agreements.

Section 5.5 Cashout. By the 15th Day (or the subsequent Business Day if a weekend or holiday) of the following Month, any end-of-Month imbalance remaining after trading will be resolved in cash as follows:

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
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(a) Positive Imbalances. If a Monthly Imbalance Amount is Positive (*i.e.*, the sum of the ADQs of the Customer Pool for the Month (less the Retainage) exceeds the Actual Takes of the Customer Pool for such Month), PGS shall purchase from Pool Manager (and Pool Manager shall sell to PGS) such Monthly Imbalance Amount at a price per Therm (the "Unit Price") equal to the lowest of the average of weekly prices for spot gas delivered to FGT at Mustang Island (Tivoli), Texas, Vermillion Parish, Louisiana, or St. Helena Parish, Louisiana, as reported in *Natural Gas Week* for the Month in which such Monthly Imbalance Amount was incurred. The total amount due Pool Manager pursuant to this paragraph (a) shall be the product of the Unit Price (calculated as set forth herein) and such Monthly Imbalance Amount.

(b) Negative Imbalances. If a Monthly Imbalance Amount is Negative (*i.e.*, Actual Takes of the Customer Pool exceed the sum of the ADQs of the Customer Pool for such Month less the Retainage), PGS shall sell to Pool Manager (and Pool Manager shall purchase from PGS) such Monthly Imbalance Amount at a price per Therm (the "Unit Price") equal to the sum of (i) the highest average of weekly prices for spot gas delivered to FGT at Mustang Island (Tivoli), Texas, Vermillion Parish, Louisiana, or St. Helena Parish, Louisiana, as reported in *Natural Gas Week*, for the Month in which such Monthly Imbalance Amount accumulated plus (ii) an amount equal to the sum of (A) the FGT FTS-3 usage rate (including, but not limited to, usage charges, surcharges, fuel reimbursement charges, and other applicable charges, taxes, assessments and fees) for the applicable calendar month and (B) the maximum reservation rate for FGT FTS-3 capacity. The total amount due PGS pursuant to this paragraph (b) shall be the product of the Unit Price (calculated as set forth herein) and such Monthly Imbalance Amount.

(c) For any Month in which a Monthly Imbalance Amount is required by paragraph (a) to be purchased by PGS, PGS shall make payment of the amount payable to Pool Manager on or before the last Day of the Month following the Month in which the Monthly Imbalance Amount accumulated. For any Month in which a Monthly Imbalance Amount is required by paragraph (b) to be purchased by Pool Manager, the amount payable to PGS shall be billed by PGS and paid by Pool Manager pursuant to Article VI.

ARTICLE VI - BILLING AND PAYMENT

Section 6.1 Amounts Due PGS. When any amounts are payable by Pool Manager pursuant to Articles IV or V, PGS shall, as soon as practicable after such amounts are determined, deliver a bill to Pool Manager for such amounts. Pool Manager shall pay any such bill rendered by PGS, minus any disputed amounts, to PGS at the address specified in the invoice on or before the 20th Day following the date of PGS's mailing or other delivery of such bill.

- (a) Charges for services due and rendered which are unpaid, and not in good faith dispute, by the due date are subject to a Late Payment Charge of 1.5% per Month, except for the accounts of federal, state and local governmental entities, agencies and instrumentalities. A Late Payment Charge shall be applied to the accounts of federal, state and local governmental entities, agencies and instrumentalities at a rate no greater than allowed, and in a manner permitted, by applicable law.
- (b) If Pool Manager fails to make any payment to PGS when due and such failure is not remedied by or on behalf of Pool Manager within five (5) Days after written notice by PGS of such default in payment, then PGS, in addition to any other remedy it may have, may, without incurring any liability to Pool Manager and without terminating this Agreement, suspend further deliveries of Gas to the Customer Pool until such amount

Issued By: Gordon L. Gillette, President
Issued On:

Effective:

Peoples Gas System
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is paid; provided, however, that PGS shall not do so if (i) Pool Manager's failure to pay is the result of a bona fide billing dispute, (ii) Pool Manager has paid all amounts not in dispute, and (iii) the parties are negotiating in good faith to resolve the dispute.

Section 6.2 Amounts Due Pool Manager. Any amounts due Pool Manager from PGS pursuant to Section 4.2(b) shall be paid to Pool Manager on or before the 20th Day of the Month following the Month in which PGS purchased any Excess Quantity from Pool Manager pursuant to Section 4.2(b). If PGS fails to make any payment to Pool Manager when due and such failure is not remedied by or on behalf of PGS within five (5) Days after written notice by Pool Manager of such default in payment, then Pool Manager, in addition to any other remedy it may have, may, without incurring any liability to PGS and without terminating this Agreement, suspend payment of any amounts due PGS pursuant to this Agreement until such amount is paid; provided, however, that Pool Manager shall not do so if (i) PGS's failure to pay is the result of a bona fide billing dispute, (ii) PGS has paid all amounts not in dispute, and (iii) the parties are negotiating in good faith to resolve the dispute.

ARTICLE VII - FORCE MAJEURE

To the extent provided in this article, Pool Manager shall be excused from delivering, on any Day, the amount of Gas required under Article IV, if (and only to the extent) such delivery is prevented by a Force Majeure event. For purposes of this Agreement, "Force Majeure" events shall be limited to those which directly cause the failure of Firm transportation of Gas to the Primary Transporter Delivery Point(s), where the cause of such failure constitutes an event of force majeure pursuant to the terms of Transporter's Tariff. If, at the time of any such failure, Pool Manager is delivering Gas to or for the account of persons other than the Customer Accounts in the Customer Pool, the quantity of Gas as to which Pool Manager shall be excused from delivering pursuant to Article IV will be no more than a proportionate amount of the total deliveries curtailed by Transporter due to the Force Majeure event. Pool Manager is responsible for establishing, to the reasonable satisfaction of PGS, Pool Manager's entitlement to the excuse from performance provided by this article. Any quantities of Gas which Pool Manager is excused from delivering pursuant to this article shall be made up by Pool Manager as soon as possible at a rate of delivery reasonably established by PGS, and Pool Manager shall pay to PGS, for any such quantities which have not been made-up by Pool Manager within thirty (30) Days following the Day on which they were to have been delivered by Pool Manager pursuant to Article IV (as such Day may have been extended by Force Majeure), an amount per MMBtu equal to five (5) times the highest price, during such 30-Day period, for spot gas delivered to a Gulf Coast pipeline, as published in *Gas Daily*. Billing and payment of any amounts payable by Pool Manager to PGS pursuant to this article shall be in accordance with Article VI.

ARTICLE VIII - MISCELLANEOUS

Except for Gas purchased by PGS from Pool Manager pursuant to Section 5.5(a), nothing in this Agreement shall be construed as vesting in PGS title to any Gas delivered by Pool Manager hereunder.

Neither PGS nor Pool Manager is in any way or for any purpose, by nature of this Agreement or otherwise, a partner, joint venturer, agent, employer or employee of the other. Nothing in this Agreement is intended to be for the benefit of, or to create any duty or liability to, any person not a party hereto.

This Agreement may not be assigned by Pool Manager without the prior written consent of PGS.

Issued By: Gordon L. Gillette, President
Issued On:

Effective: