

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc. | DOCKET NO. 080695-WU
ORDER NO. PSC-10-0117-PAA-WU
ISSUED: February 26, 2010

The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman
LISA POLAK EDGAR
NATHAN A. SKOP
DAVID E. KLEMENT
BEN A. "STEVE" STEVENS III

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE
AND
FINAL ORDER APPROVING RATE REDUCTION IN FOUR YEARS AND REQUIRING
PROOF OF ADJUSTMENT TO BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the reduction in rates in four years and proof of adjustment of the utility's books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. BACKGROUND

Peoples Water Service Company of Florida, Inc. (Peoples or Utility) is a Class A water utility providing service to approximately 8,277 customers in Escambia County. Peoples is a Florida corporation incorporated on May 1, 1995. Peoples has not had a general rate increase application processed before us. The Utility's last general rate increase request was approved by the Escambia County Board of County Commissioners in June of 1991. We received jurisdiction over Peoples in December 1991.¹ The Utility has implemented pass-through and annual indexing adjustments pursuant to the provisions of Section 367.081(4)(a) and (b), Florida Statutes (F.S.), and Rules 25-30.420 and 25-30.425, F.A.C. In its 2008 annual report, the Utility reported operating revenues of \$3,048,381 and a net income of \$104,327.

¹ Order No. 25593, issued January 13, 1992, in Docket No. 911196-WS, In re: Resolution of the Board of County Commissioners of Escambia County declaring Escambia County subject to the provisions of Chapter 367, Florida Statutes.

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FPSC-COMMISSION CLERK

On May 20, 2009, Peoples filed its application for approval of interim and final rate increases in this instant docket. The Utility had a few deficiencies in the minimum filing requirements (MFRs). The deficiencies were corrected, and July 2, 2009, was established as the official filing date. Peoples requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2008.

Peoples requested interim rates were designed to generate annual water revenues of \$3,417,161, an increase of \$351,033 or 11.45 percent. The Utility requested final rates designed to generate annual water revenues of \$3,483,246, an increase of \$417,118 or 13.6 percent.

By Order No. PSC-09-0537-PCO-WU, issued August 4, 2009, we approved interim rates designed to generate annual water revenues of \$3,350,156, an increase of \$284,028 or 9.26 percent. This order addresses the revenue requirement and rates to be charged on a prospective basis. We have jurisdiction pursuant to Section 367.081, F.S.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we shall determine the overall quality of service the Utility provides by evaluating the quality of the Utility's product, the operational conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Utility's compliance with the Florida Department of Environmental Protection's (DEP) regulations and customer comments or complaints received by us are also reviewed. Our staff conducted a field inspection of the Utility's facilities on October 5, 2009.

A. Quality of the Product

Escambia County falls under review by DEP's Northwest District. A sanitary survey in 2006 listed one deficiency that has since been addressed by the Utility. That deficiency was a tank inspection and cleaning that has now been accomplished, although the report submitted to the DEP was not signed and sealed by a Professional Engineer licensed in Florida. A more recent sanitary survey was completed in August 2009, and states that documentation needs to be completed for the tank inspection and cleaning. The survey also notes that due to a rule change related to operator staffing, additional operator time is required on site at two of the Utility's plants. The Utility is working with the DEP to see if its electronic control system can be used in lieu of additional operator staff time and still comply with the rule. In reviewing the data available, it appears that the quality of the water that Peoples provides to its customers is satisfactory.

B. Operational Conditions at the Plant

Water from the Utility's five wells is treated with a lime slurry solution for pH adjustment and chlorine gas for disinfection. Wells 3 and 5 have granulated activated carbon filtration. Our staff conducted an on-site inspection at several of the plants during the field inspection October 5, 2009, and found the plants to be operating as designed, except for Well 5

at the Corry Plant, where the well is temporarily out of service for repairs. Operational conditions at the water plants appear to be satisfactory.

C. Customer Satisfaction

Two customer meetings were held in Pensacola to allow the customers an opportunity to provide comments concerning the quality of service. The first meeting was held on August 24, 2009. Two customers attended and made comments about the Utility's proposed rate structure. A second meeting was held on October 5, 2009, when it was discovered that the first customer notice did not correctly articulate the Utility's proposed change in rate structure to eliminate the minimum gallonage allowance. At this second meeting, two more customers attended, offering comments about the proposed change in rate structure. We also received several letters from customers, most addressing the change in rate structure as contained in the notice to customers. The Utility's proposed rate structure, several alternative rate designs, and our approved rate structure will be addressed below.

Another customer commented that the water must be boiled before drinking and that he purchases bottled water. According to the Utility manager, there is a small amount of hydrogen sulfide in the water, most notably in the westernmost wells. Our staff has contacted the customer about the water quality via e-mail in an effort to help and the customer has not responded.

A review of this Commission's Consumer Activity Tracking System shows several complaints filed regarding billing issues and delinquent notices, and specifically the timing of those notices received by customers. The Utility responded to our inquiries regarding billing and notices to customers, and those inquiries have been resolved and are closed. Therefore, we find that the Utility's attempts to address customer concerns are satisfactory.

D. Summary

Based upon a review of the data available, the quality of the product and the condition of the Utility's water facilities are in compliance with regulatory standards. In addition, the Utility appears to address customer concerns on a timely basis. Therefore, we find that the overall quality of service provided to the customers is satisfactory.

III. RATE BASE

A. Used and Useful

The Utility's plants produce water from five wells constructed between 1951 and 1991. Four storage tanks are in use in the service area, while a fifth tank, the old Gulf Beach elevated tank, was removed from the system in 2004. After touring the service area, our staff opined that the service area is essentially built out, although there are some vacant lots scattered where homes could be built. A review of the Utility's annual reports for the last five years shows some growth in larger sized meters, but about the same number of residential 5/8" X 3/4" meters each year. Overall, the meter equivalents have climbed from 12,022 to 12,466 in the last five years with 426 equivalents being added in 2008.

Schedule F-1 of the Utility's MFR filing shows that unaccounted for water is less than 10 percent. This percentage is within our guidelines. Schedule F-5 of the MFRs shows that maximum day demand exceeds the firm reliable capacity of the plants. Schedule F-7 of the MFRs states that the distribution system is entirely contributed. Schedule F-9 of the MFRs shows overall growth since 2004 at 0.2 percent. We find that, pursuant to Rule 25-30.4325, F.A.C., the Utility's service area is essentially built out; thus, the water plant and distribution system shall be considered 100 percent used and useful.

B. Plant-in-Service Adjustments

As mentioned in the case background, Peoples has not had a rate case before us, and we have not established rate base for the Utility. Peoples recorded 13-month average plant-in-service of \$12,720,410 as of December 31, 2008. Our staff audited the Utility's books and determined that the Utility included \$155,539 of plant-in-service that did not have supporting documentation (Audit Finding No. 1). We made an adjustment of (\$155,539) to remove the undocumented plant.

Peoples included a 13-month averaging adjustment to plant-in-service of (\$266,042) in its filing. Our 13-month averaging adjustment to plant-in-service is (\$265,266) after removing the undocumented plant. We made an adjustment of \$776 to plant-in-service to reflect the appropriate 13-month averaging adjustment. Our adjustments reflect a Utility plant-in-service balance of \$12,461,592 as of December 31, 2008.

The Utility included pro forma costs of \$213,444 in plant-in-service. These costs are for meters and meter installations to convert customers' existing meters to radio-read technology. This is a multi-year project started in 2006 with a scheduled completion date of August 31, 2010. The \$213,444 cost represents installations of meters for the calendar year 2009. We find that these costs are justified and reasonable.

Since Peoples has not had rate base set by this Commission, it used depreciation rates approved by Escambia County up to the beginning of the test year. An undocketed audit of Peoples was completed November 7, 1995, for the twelve months ending December 31, 1994. At the completion of the audit, a disclosure was made noting that Peoples was using asset lives different from our estimated asset lives. In answer to this disclosure, Peoples stated:

[Peoples] has utilized in the past and continues to use depreciation rates as approved by its previous regulatory body. The rates appropriately reflect the actual useful lives of the assets in our opinion and historical experience, based on many years of experience in the industry. [Our] rule does not require the implementation of the service lives outlined in Rule 25-30.140, F.A.C. in a proceeding such as this. [Peoples] is willing to discuss with [us] changing the

rates on a forward looking basis to comply with the PSC guideline asset service life.²

For this proceeding, we calculated depreciation using our depreciation rates and determined that accumulated depreciation would have decreased by \$789,752 if our depreciation rates were used since 1991 in lieu of Escambia County's approved rates. Peoples filed its petition changing its depreciation rates to rates established by this Commission starting at the beginning of the test year. The result of using rates as filed by Peoples produces a savings to customers of over \$69,000 per year, based on the Utility's approved overall rate of return.

Peoples recorded 13-month average accumulated depreciation of (\$6,468,529) as of December 31, 2008. Peoples made an adjustment of \$39,507 to test year accumulated depreciation to reflect accumulated depreciation adjusted to our guideline rates and include depreciation on pro forma meters. Peoples' test year total accumulated depreciation is (\$6,429,022).

We made an adjustment of \$4,262 to accumulated depreciation to reflect our calculation of accumulated depreciation using our guideline rates. Peoples included a 13-month averaging adjustment to accumulated depreciation of \$63,921 in its filing. Our calculated a 13-month averaging adjustment of \$52,005 to accumulated depreciation. We made an adjustment of (\$11,916) to accumulated depreciation to reflect the appropriate 13-month averaging adjustment. Our total adjustments reflect a 13-month average accumulated depreciation balance of \$6,436,676 as of December 31, 2008.

The Utility's filing reflects test year depreciation of \$461,047, which includes \$19,417 of depreciation on pro forma meters. We made an adjustment of (\$4,262) to reflect test year depreciation using our guideline rates. We calculated test year depreciation of \$456,785.

Based on the above, we determine that plant shall be reduced by \$155,539 to remove plant with no supporting documentation, and an adjustment of \$776 shall be made to reflect the appropriate 13-month average plant. Accumulated depreciation shall be reduced by \$4,262 to reflect accumulated depreciation using our guideline rates during the test year, and an adjustment of (\$11,916) shall be made to reflect the appropriate 13-month average accumulated depreciation. An adjustment of (\$4,262) shall also be made to reflect the appropriate amount of test year depreciation expense.

C. Working Capital

Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Rule 25-30.433(2), F.A.C., requires that working capital for Class A utilities shall be calculated using the balance sheet approach. According to its filing, Peoples utilized the balance sheet approach and calculated a working capital allowance of \$101,023 for water.

² Comments by Peoples Water Service Company of Florida, Inc. regarding Florida Public Service Commission Audit Control Number 95-181-1-1, Audit Disclosure 9 - Depreciation.

Schedule A-3 of the Utility's MFRs shows that Peoples included \$74,750 of simple average rate case expense in working capital. Based on our prior practice,³ the average unamortized balance of the total allowed rate case expense is included in working capital. As discussed below, we approved rate case expense in the amount of \$165,113. The simple average balance of rate case expense would be \$82,556. Thus, we determine that working capital be increased by \$7,806 to reflect our average approved rate case expense. We find that, in accordance with Rule 25-30.433(2), F.A.C., the appropriate amount of working capital shall be \$108,829.

D. Rate Base

Based on our adjustments and use of the appropriate 13-month average rate base for the test year ending December 31, 2008, rate base for Peoples shall be \$3,749,809. The rate base schedule is attached as Schedule 1-A. The schedule of adjustments to rate base is attached as Schedule 1-B.

IV. COST OF CAPITAL

A. Return on Equity (ROE)

Based on our 2009 leverage formula⁴ and an equity ratio of 100 percent, we calculated an ROE of 9.67 percent. We determine that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes. The ROE is shown on Schedule No. 2.

B. Weighted Average Cost of Capital

Pursuant to Rule 25-30.433(4), F.A.C., the averaging method used by us to calculate cost of capital is a 13-month average for Class A utilities. The test year book amounts were taken directly from Peoples' filing Schedule D-2. A check of the components showed that the Utility used a simple average when including its average customer deposit amount of \$115,984. Peoples' balance sheet (Schedule A-19) correctly reflected the 13-month average customer deposit balance of \$114,873. We made an adjustment of (\$1,111) to reflect the appropriate 13-month average amount of customer deposits. The Utility recorded common equity of \$3,187,570 for the test year. We made an adjustment of (\$10,272) to reflect reclassification of operation and maintenance expenses to equity (Audit Finding No. 4).

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, we approve a weighted average cost of capital of 8.80 percent, as shown in Schedule No. 2.

³ See Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System).

⁴ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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.

V. NET OPERATING INCOME

A. Operation and Maintenance Expenses

In its filing, Peoples reflected \$2,223,816 in test year operation & maintenance (O&M) expenses. We made adjustments to the following accounts:

Salaries and Wages – Employees – Peoples recorded \$543,357 of salaries and wages for the test year. We reclassified \$6,904 to the materials and supplies account and \$16,525 to the contractual services account. We also reclassified \$143,958 in salaries recorded in the materials and supplies account to salaries and wages – employees.

Employees Pensions and Benefits – The Utility recorded \$167,931 of employee pensions and benefits during the test year. We reclassified \$159 to fuel for power production, \$435 to materials and supplies, and \$1,164 to retained earnings. An adjustment was also made to this account to reclassify \$304 from miscellaneous expenses to employee pensions and benefits.

Purchased Power – Peoples recorded test year purchased power expense of \$157,822. An adjustment was made to reclassify \$8,782 from purchased power to fuel for power production. We also reclassified \$419 of purchased power expense from fuel for power production to purchased power.

Fuel for Power Production – The Utility included \$419 of purchased power expense in this account in the test year. We reclassified \$8,782 from purchased power and \$159 from employee pensions and benefits to fuel for power production. We also reclassified \$419 of purchased power expense from this account to the purchased power account.

Materials and Supplies – Peoples recorded \$308,774 of materials and supplies expense during the test year. We reclassified \$143,959 to salaries and wages - employees, \$37,385 to contractual services - other, and \$64 to retained earnings. Adjustments were also made to reclassify \$435 from employee pensions and benefits, \$6,904 from salaries and wages – employees, and \$336 from miscellaneous expenses to this account.

Contractual Service – Legal – The Utility recorded \$16,657 of contractual services – legal during the test year. We made adjustments to remove \$15,911 of rate case expense and reclassify \$105 to retained earnings. Rate case expense is addressed below.

Contractual Services – Other – Peoples recorded \$28,006 of contractual services – other for the test year. We made adjustments to reclassify \$4,494 from miscellaneous expenses, \$16,526 from salaries and wages – employees, and \$37,385 from materials and supplies to this account.

Transportation Expenses – The Utility recorded \$48,885 of transportation expense for the test year. We reclassified \$1,213 of transportation expenses from miscellaneous expenses to this account.

Miscellaneous Expenses – Peoples recorded \$59,504 of miscellaneous expenses during the test year. We made adjustments to reclassify \$304 to employee pensions and benefits, \$336 to

materials and supplies, \$4,494 to contractual services – other, \$1,213 to transportation expense, and \$8,939 to retained earnings.

Conclusion – We removed \$15,911 of rate case expenses, \$9,978 of non-utility expenses, and \$294 of expenses outside the test year from the Utility’s test year O&M expenses. A number of reclassifications were completed to place expenses in their proper account. A summary of our adjustments is shown below in Table NOI-1. We determine that test year O&M expenses shall be decreased by \$26,183 to reflect our approved test year O&M expenses before rate case expense.

TABLE NOI-1

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.				
O&M EXPENSES-WATER				
Test Year Ended 12/31/08				
ACCT NO.	ACCOUNT TITLE	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION APPROVED TEST YEAR
601	SALARIES AND WAGES - EMPLOYEES	\$543,357	\$120,529	\$663,886
603	SALARIES: OFFICERS, DIRECTORS, ETC.	0	0	0
604	EMPLOYEE PENSIONS AND BENEFITS	167,931	(1,454)	166,477
610	PURCHASED WATER	0	0	0
615	PURCHASED POWER	157,822	(8,363)	149,459
616	FUEL FOR POWER PRODUCTION	419	8,522	8,941
618	CHEMICALS	42,026	0	42,026
620	MATERIALS AND SUPPLIES	308,774	(173,733)	135,041
631	CONTRACTUAL SERVICES - ENGR.	1,846	0	1,846
632	CONTRACTUAL SERVICES - ACCT.	500	0	500
633	CONTRACTUAL SERVICES - LEGAL	16,657	(16,016)	641
634	CONTRACTUAL SERVICES - MGMT. FEES	541,449	0	541,449
635	CONTRACTUAL SERVICES - OTHER	28,006	58,405	86,411
636	CONTRACTUAL SERVICES - TESTING	178,367	0	178,367
641	RENTAL OF BUILDING/REAL PROPERTY	0	0	0
642	RENTAL OF EQUIPMENT	0	0	0
650	TRANSPORTATION EXPENSES	48,885	1,213	50,098
656	INSURANCE-VEHICLE	25,276	0	25,276
657	INSURANCE-GENERAL LIABILITY	38,179	0	38,179
658	INSURANCE-WORKMAN'S COMP.	21,839	0	21,839
659	INSURANCE-OTHER	22,782	0	22,782
660	ADVERTISING EXPENSE	0	0	0
666	AMORT. OF RATE CASE EXPENSE	0	0	0
667	REGULATORY COMM. EXPENSES - OTHER	0	0	0
670	BAD DEBT EXPENSE	20,197	0	20,197
675	MISCELLANEOUS EXPENSES	59,504	(15,286)	44,218
	TOTAL OPERATION AND MAINTENANCE	<u>\$2,223,816</u>	<u>\$26,183</u>	<u>\$2,197,633</u>

B. Rate Case Expense

Peoples initially submitted in its MFRs \$149,500 in rate case expense, with an annual amortization expense of \$37,375. The Utility subsequently updated its estimated rate case expenses to \$172,114. The breakdown of fees is shown below as reflected in the Utility’s MFRs.

	MFR	Utility Revised
	<u>Estimated</u>	<u>Actual</u>
Cronin, Jackson, Nixon, and Wilson CPAs	\$60,000	\$77,968
Legal- Rose, Sundstrom & Bentley, LLP	60,000	82,646
In house - Notices, customer meeting, etc.	<u>25,000</u>	<u>11,500</u>
Total	<u>\$149,500</u>	<u>\$172,114</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, we find that some adjustments are necessary to the revised rate case expense estimate.

The first adjustment is in regards to the hours billed by Rose Sundstrom & Bentley (RS&B) for services involving a possible acquisition of another utility and charged to rate case expense. Peoples was billed \$406 on September 18, 2008, \$29 on December 2, 2008, and \$1,254 on September 12, 2009, for research into the acquisition of another utility. Accordingly, we determine that \$1,689 (\$406 + \$29 + \$1,254) shall be removed as non-rate case expense.

The second adjustment involves costs incurred to correct deficiencies in the MFR filing. Based on information obtained from RS&B, Peoples was billed \$2,048 on July 9, 2009, and \$1,056 on August 10, 2009, for correcting the MFR deficiencies and revising the Utility's filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁵ Accordingly, we determine that \$3,104 (\$2,048 + \$1,056) shall be removed as duplicative and unreasonable rate case expense.

The third adjustment relates to costs incurred related to the Utility's modification of the test year. On December 2, 2008, RS&B submitted a letter to the Chairman requesting a test year ending August 31, 2008. The Chairman approved the August 31, 2008, test year by letter dated January 29, 2009. A subsequent letter by RS&B dated February 4, 2009, requested the test year be modified to a test year ending December 31, 2008. By letter dated February 20, 2009, the Chairman approved the modified test year ending December 31, 2008. Legal costs incurred in the change of the test year totaled \$1,344. We find that customers shall not have to bear the costs of a utility decision to change the test year. Therefore, we determine that \$1,344 related to the modified test year shall be removed from rate case expense.

Lastly, on July 9, 2009, RS&B billed the Utility \$864 for charges related to service cutoff of a mobile home park. These charges were mistakenly included in rate case expense. We determine that rate case expense shall be reduced by an additional \$864 for charges related to the cutoff of service to the mobile home park. We also reviewed the hourly rates of the consultants

⁵ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

and determined those rates were similar or the same as hourly rates approved in previous rate cases.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

In summary, we determine that Peoples' rate case expense shall be decreased by \$7,001 for MFR deficiencies, modification of the test year, and non-rate case expenses. The appropriate total rate case expense shall be \$165,113. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Commission Adjustments</u>	<u>Total</u>
Cronin, Jackson, Nixon, and Wilson CPAs	\$60,000	\$77,968	0	\$77,968
Legal – RS&B	60,000	82,646	(7,001)	75,645
In house - Notices, customer meeting, etc.	25,000	11,500	0	11,500
Total Rate Case Expense	<u>\$149,500</u>	<u>\$172,114</u>	<u>(\$7,001)</u>	<u>\$165,113</u>
Annual Amortization	<u>\$37,375</u>	<u>\$43,029</u>	<u>(\$1,750)</u>	<u>\$41,278</u>

The total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Peoples and the adjustments discussed above, we calculate an annual rate case amortization of \$41,278.

C. Operating Income or Loss Before Any Revenue Increase

Based on the operating expense and adjustments discussed in previous issues, Peoples experienced a net income of \$112,671 for the test year ending December 31, 2008. The schedule for water operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule 3-B.

VI. REVENUE REQUIREMENT

The revenue requirement is a summary computation that is dependent upon the previous issues related to rate base, cost of capital, and operating expenses. Peoples requested final rates designed to generate annual revenues of \$3,483,246. These revenues exceed test year revenues by \$417,118 (or 13.6 percent).

Based on our findings concerning and adjustments to the underlying rate base, cost of capital, and operating income issues, Peoples' revenue requirement shall be \$3,427,667. These revenues exceed Peoples' approved test year revenues by \$364,620 (or 11.90 percent) as shown on attached Schedule 3-A.

VII. RATE STRUCTURE, REPRESSION AND RATES

A. Current Rate Structure

The current rate structure for all customers of the Utility is the BFC/declining-block rate structure with gallonage minimums (allotments), based on meter size, included in the BFC. The Utility's current rates include a monthly BFC for a 5/8" x 3/4" meter of \$10.05, plus a 3 kgal minimum included in the BFC at no charge. Customers are also charged \$3.91 per month for the next 7 kgal above the minimum, \$3.47 for the next 10 kgal, and \$3.35 per kgal for all remaining usage during the month. Peoples current rate structure and rates are shown in Table RS-1 below.

TABLE RS-1

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. SCHEDULE OF CURRENT RATES – BILLED MONTHLY	
Base Facility Charges and Associated Kgal Allotments (Minimums) – All Classes	BFC
5/8" or 3/4" meter (includes 3 kgal)	\$10.05
1" meter (includes 6.3 kgals)	\$22.97
1 1/4" meter (includes 8.8 kgals)	\$32.76
1 1/2" meter (includes 10.9 kgals)	\$40.60
2" meter (includes 30.5 kgals)	\$107.41
3" meter (includes 64.6 kgals)	\$221.87
4" meter (includes 132.8 kgals)	\$450.81
6" meter (includes 269.1 kgals)	\$908.32
Gallonage Charges in Excess of Minimums – All Classes	
First 7 kgal in excess of minimum	\$3.91
Next 10 kgal in excess of minimum	\$3.47
Remaining kgals in excess of minimum	\$3.35
Source: Peoples Water Service Company of Florida, Inc., Minimum Filing Requirements, Schedule E-1.	

During a time in which inclining-block rate structures are this Commission's rate structure of choice, it is unusual to consider a case with a current three-tiered declining block rate structure with kgal minimums included in the BFC. Although the Utility's rate structure is considered usage-sensitive, because customers are charged for virtually all gallons consumed, it is also considered non-conservation oriented, because the usage (consumption) rate decreases as consumption increases. The residential customer base is non-seasonal, with an average consumption per customer of 5.3 kgal per month.

The Utility requested significant changes in its rate structure, including eliminating the kgal minimums (allotments) that are included in the BFC. All other things equal, eliminating kgals in the BFC results in the greatest price changes (in terms of percentage increase in price over the current bill) going to those customers using at or below the 3 kgal minimum. This is

also the consumption range for customers' nondiscretionary usage, making it less likely that customers whose usage is in that range will be able to reduce their consumption to mitigate the overall increase in their bill. Therefore, ways to reduce the bill at nondiscretionary consumption levels became an important consideration in the rate design process in this case.

The Utility requested that, as a method of reducing the BFC in this case, the appropriate calculation of ERCs for the multi-residential class be based on the number of housing units served, rather than on AWWA meter equivalency factors. In most circumstances, our approved BFC for meter sizes larger than 5/8" x 3/4" is based on the AWWA meter equivalency factors. However, we have approved alternative fixed cost recovery methodologies in other cases. One example is Mid-County Services, Inc. (Mid-County). In Mid-County's 1997 rate case, which was a full evidentiary proceeding, parties stipulated that, for rate structure purposes, the appropriate meter equivalency factors to be used for determining rates were the hydraulic factors in the Clow pipe economy usage scale.⁶ In a subsequent 2003 proposed agency action (PAA) case, we approved an allocation of the base facility charge (BFC) for Mid-County that was consistent with the Clow pipe methodology approved in Mid-County's 1997 case.⁷ Finally, we made a similar decision in Mid-County's 2008 PAA rate case.⁸

Although hydraulic flows, rather than number of units served behind the meter, formed the basis for selecting the Clow pipe methodology in each of the above-referenced cases, the end result of both the Clow pipe and MMB approaches is the same: each methodology resulted in a greater number of ERCs to be used in the calculation of the BFC than would have been calculated using the AWWA meter equivalency factors alone. Using the MMB approach to calculate ERCs results in 24,141 (or 18.4%) more ERCs available for the BFC calculation. For the reasons discussed above, we find that the MMB approach is appropriate in this case. However, because our finding is based on the specific rate structure circumstances in this case, our decision regarding MMB shall not be considered precedential in nature.

Section 373.227(1), F.S., states in part:

The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources. . . . To achieve these conservation objectives, the state should emphasize goal-based, accountable, tailored, and measurable water conservation programs for public water supply. . . .

⁶ See Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

⁷ See Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

⁸ Order No. PSC-09-0373-PAA-SU, issued May 27, 2009, in Docket No. 080250-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

B. Discussion of Approved Rate Structure

At the January 5, 2010, Agenda Conference, we deferred our decision on rate design for this Utility and requested that our staff provide us several additional rate structures for consideration. At the January 26, 2010, Agenda Conference, in addition to our staff's originally recommended rate structure, we considered four alternative rate structures. For the reasons discussed below, we selected Alternative Four, as shown on Table RS-2 in Attachment A to this Order. Following our discussion of our approved rate structure, we briefly discuss our staff's original recommendation as well as three alternatives which we declined to approve.

Alternative Four has a four-tiered inclining block rate structure with usage blocks of: (1) 0-3 kgals (nondiscretionary consumption); (2) 3.001-6 kgals; (3) 6.001-12 kgals; and (4) all gallons in excess of 12 kgals. When approving a rate structure, we take several things into consideration, including the current rate structure, characteristics of the Utility's customer base, various conditions of the Utility's Consumptive Use Permit, mutual agreements between this Commission and the state's five Water Management Districts (WMDs), and current and anticipated climatic conditions in the Utility's service area. A specific condition of Peoples' Water Use Permit is that it "shall pursue the implementation of a rate structure that promotes water use efficiency and conservation."⁹

This Commission signed a Memorandum of Understanding (MOU) with the state's five Water Management Districts in June 1991. The MOU recognizes that the Water Management Districts have expertise in managing the state's water resources and that we have expertise in the economic regulation of the utilities under our jurisdiction. In rate proceedings like the instant case, the MOU calls for the Water Management District to identify and recommend preferred solutions to encourage necessary water conservation efforts. Based on the recommendations of the WMD, we then implement, to the extent practicable, water conserving rate structures and other measures designed to implement the recommendations of the WMD.¹⁰ A guideline of the five Districts is to set the BFC such that they recover no more than 40 percent of the revenues to be generated from monthly service.¹¹ We follow the WMD guidelines whenever possible.¹²

⁹ Northwest Florida Water Management District, Individual Water Use Permit No. 19830018.

¹⁰ Memorandum of Understanding: Florida Water Management Districts and Florida Public Service Commission, June 27, 1991.

¹¹ See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.)

¹² See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; and Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

Furthermore, in response to growing water demand and water supply problems, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation consistent with WMD guidelines, was that the base facility charge portion of the bill usually should not represent more than 40 percent of the Utility's total revenues.¹³ Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, the Florida section of the American Water Works Association, as well as this Commission, are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.¹⁴

There are two characteristics of our approved rate structure that makes it more conservation oriented than the Utility's current rate structure. First, it eliminates the gallonage allotment in the BFC. A gallonage allotment in the current BFC is considered non-conservation oriented because the marginal cost of these gallons is zero. That means there are no price signals sent to consumers for any level of usage less than or equal to the allotment. The second characteristic of this rate structure is that it replaces a declining block rate structure with an inclining block rate structure. An inclining block rate structure is considered to be a more conservation oriented rate structure because the price per thousand gallons increases as consumption rises. This sends a stronger price signal to consumers as their consumption rises, thereby promoting conservation.

The rates calculated using our approved rate structure included the effects of repression except for the non-discretionary 0-3 kgal block. Repression occurs when consumers reduce their consumption in reaction to an increase in price. This, in turn, necessitates that the price per gallon must increase in order to keep the rates compensatory. Based on the "before and after" consumption data of utilities who have had rate cases since 2000, our staff has measured the average rate at which consumers react to changes in price. Based on this data, for a ten percent increase in price, consumers will reduce their discretionary consumption by four percent. This relationship between changes in price and changes in consumption was used to calculate all rates considered in this Order and is discussed further below.

We note that because the price per gallon for the non-discretionary 0-3 kgal block does not include the price increase associated with the repression adjustment, the resulting under-recovery from the first block is spread across the remaining consumption levels. By holding prices at pre-repression levels for consumption from 0-3 kgal, customers in this first block are shielded from the repression adjustment to rates.

¹³ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

¹⁴ Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

As a result, the approved rate structure reduces the rates for nondiscretionary consumption. However, in order to keep rates compensatory, the revenue shortfall that is created by not spreading the effects of repression on nondiscretionary consumption shall be spread to rates for consumption greater than 3 kgal. Therefore, rates for consumption greater than 3 kgal are made greater than they would otherwise be had we allowed a repression adjustment to be spread across all four consumption blocks.

As discussed above, the Utility's current rate structure is a declining block rate structure with allotments in the BFC. As discussed previously in this Order, during a time in which inclining block rate structures are this Commission's rate structure of choice, it is unusual to consider a case with a current three-tiered declining block rate structure with kgal minimums included in the BFC. Due to the price impacts on residential customers at nondiscretionary levels of consumption that result from both the rate structure and revenue requirement changes, we are persuaded in this instance that Alternative 4 is the appropriate rate structure for the residential class. Alternative 4 not only creates a rate block for the 0-3 kgal consumption level such that prices are reduced at those consumption levels, but it also shields 0-3 kgal nondiscretionary consumption from the repression adjustment to rates.

Therefore, based on the foregoing discussion, we find that Alternative 4 is the appropriate rate structure for the residential class. The appropriate usage blocks shall be based upon monthly usage: (1) of 0-3 kgal; (2) 3.001-6 kgal; (3) 6.001-12 kgal; and (4) in excess of 12 kgal. The usage block rate factors shall be set at 0.3334, 1.0, 1.5 and 2.0, respectively. The base facility charge cost allocation recovery shall be 25 percent, and shall not include a gallonage allotment in the BFC. This conservation oriented rate structure shall serve to replace the Utility's non-conservation oriented rate structure. The multiple minimum billing/uniform gallonage charge rate structure shall be applied to the multi-residential customer class. The BFC/uniform gallonage charge rate structure shall be applied to all other customer classes. Furthermore, we find that the appropriate method of calculating ERCs for customer classes other than the multi-residential class shall be based on the American Water Works Association meter equivalency factors. The appropriate calculation of ERCs for the multi-residential class shall be based on the number of housing units served.

C. Other Rate Structures Considered

Our staff's original rate structure was a three-tiered inclining block structure; it removed kgal allotments from the BFC, included repression in all three tiers, and was a conservation oriented rate structure. However, in exercising our discretion, we declined to approve this rate structure in favor of Alternative Four for the reasons stated above.

Alternative One rate structure was a three-tiered inclining block structure; it included repression in all three tiers but kept the kgal allotments in the BFC. However, had we approved this alternative, the rate structure would have violated a specific condition of People's Water Use Permit and would have been contrary to our MOU with the WMDs to water foster conservation and conservation promoting rate structures. For that reason, we declined to approved this rate structure.

Alternative Two rate structure was a three-tiered inclining block structure, but it eliminated the BFC entirely and based a customer's bill solely on consumption. The BFC is designed to recognize that a utility has fixed costs that must be met and that it is required to provide each customer with service on demand.¹⁵ The BFC is a set charge on every bill that does not fluctuate with the amount of consumption. This charge is essential in ensuring the company has a fixed revenue stream. However, had we approved Alternative Two, the fixed revenue stream provided by the BFC would be eliminated and the resulting bills would then be strictly consumption based. Using this alternative, the customers would have had a rate structure that provides proper price signals regarding the true cost of water that promotes water conservation.¹⁶ Although this rate structure is consistent with the MOU because there are price signals for every kgal used, there may be months when this rate structure would not provide the Utility with the revenues, or the fixed revenue stream, it needs. We note that our approved revenue requirement before any adjustment for repression (to be discussed later in this Order) is \$3,427,667, or \$285,639 on an average monthly basis. However, by eliminating the BFC, the Utility would receive less than \$100,000 during the lowest consumption month. Therefore, because eliminating the BFC would likely not provide a sufficient fixed revenue stream during all months, we find that a rate structure based solely on consumption to be imprudent and declined to approve this rate structure.

Alternative Three rate structure is like our approved rate structure in that it was a four-tiered inclining block structure. Like our approved structure, the 0-3 kgal consumption level would be priced low enough to reduce prices at 3 kgal or less as compared to the Utility's current rate structure. Alternative Three, however, differs from our approved rate structure in that repression is calculated for all four tiers, including the 0-3 kgal block. For that reason, we declined to approved this rate structure.

D. Repression Adjustment

As discussed above, based on consumption data of utilities that have had rate cases since 2000, our staff has measured the average rate at which consumers react to changes in price. Based on this data, for a ten percent increase in price, consumers will reduce their discretionary consumption by four percent. We find that this relationship between changes in price and changes in consumption is appropriate to include in the calculation of our approved rates. Therefore, we find that residential consumption shall be reduced by (26,231) kgals, final residential consumption for ratesetting shall be 500,834 kgals, nonresidential consumption for ratesetting shall be 225,468 kgals, and that total kgals for ratesetting shall be 726,302 kgals. The anticipated reduction in reduction in residential consumption results in a final revenue requirement for monthly rates of \$3,420,678.

¹⁵ See Order 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.

¹⁶ See Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Docket No. 960545-WS, In re: Investigation of utility rates of Aloha Utilities, Inc. in Pasco County.

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

E. Appropriate Rates

Based on the foregoing, the appropriate monthly water rates are shown on Schedule 4 (see attached). Excluding miscellaneous service revenues, the approved water rates are designed to produce revenues of \$3,420,678. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates, which shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given no less than 10 days after the date of the notice.

Excluding miscellaneous service revenues, the approved water rates shown on Schedule No. 4 are designed to produce revenues of \$3,420,678. Approximately 25 percent (or \$855,169) of the water monthly service revenues is recovered through the base facility charges, while approximately 75 percent (or \$2,565,508) represents revenue recovery through the consumption charges. The Utility's private fire protection rates are based on 1/12 of the approved base facility charge for the Utility's meter sizes, consistent with Rule 25-30.465, F.A.C.

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

VIII. Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on unamortized rate case expense included in working capital, and the gross-up for RAFs, which is \$50,830. The decreased revenue will result in the rate reduction approved by us on Schedule 4.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect this Commission's approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C.

The rates shall not be implemented until our staff has approved the proposed customer notice. Peoples shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

IX. Interim Refund

By Order No. PSC-09-0537-PCO-WU, issued August 4, 2009, this Commission approved an interim revenue requirement of \$3,350,156, which represents an increase of \$284,028 or 9.26 percent. Pursuant to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average test year ending December 31, 2008. Peoples' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish whether a refund is appropriate, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because the item is prospective in nature and did not occur during the interim collection period. The revenue requirement of \$3,427,667 is greater than the interim revenues of \$3,350,156 granted in Order No. PSC-09-0537-PCO-WU, and, as such, no interim refund shall be made.

X. Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, Peoples shall provide proof, within 90 days of the final order in this docket that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Peoples Water Service Company, Inc.'s application for a rate increase is approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by

the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Peoples Water Service Company, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that staff has approved the proposed customer notice. It is further

ORDERED that Peoples Water Service Company, Inc. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Peoples Water Service Company, Inc. shall provide proof, within 90 days of the Consummating Order finalizing this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the rates shall be reduced as shown on Schedule 4 to remove \$50,830 for rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that Peoples Water Service Company, Inc. shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until staff has approved the proposed customer notice. Peoples shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that if Peoples Water Service Company, Inc. files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

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DOCKET NO. 080695-WU
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ORDERED that if no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued, and this docket shall remain open for our staff's verification that the revised tariff sheets reflecting the rate increase and customer notice have been filed by the utility and approved by our staff. It is further

ORDERED that once these actions are complete, the letter of credit shall be released and this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 26th day of February, 2010.



ANN COLE
Commission Clerk

(S E A L)

ELS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action, except for the four year statutory rate reduction and the requirement of proof of adjustment to the utility's books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 19, 2010. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Peoples Water Service Company of Florida, Inc. Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 080695-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$12,402,911	\$213,444	\$12,616,355	(\$154,763)	\$12,461,592
2 Land and Land Rights	\$104,055	\$0	104,055	0	104,055
3 Non-used and Useful Components	\$0	\$0	0	0	0
4 Accumulated Depreciation	(\$6,468,529)	\$39,507	(6,429,022)	(7,654)	(6,436,676)
5 CIAC	(\$4,019,958)	\$0	(4,019,958)	0	(4,019,958)
6 Amortization of CIAC	\$1,511,332	\$20,635	1,531,967	0	1,531,967
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Advances for Construction	\$0	\$0	0	0	0
9 Working Capital Allowance	\$0	\$101,023	101,023	7,806	108,829
10 Other	0	0	0	0	0
11 Rate Base	\$3,529,811	\$374,609	\$3,904,420	(\$154,611)	\$3,749,809

Peoples Water Service Company of Florida, Inc. Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-B Docket No. 080695-WU
Explanation		Water
<u>Plant In Service</u>		
To remove plant with no supporting documentation (Audit Finding No. 1).		(\$155,539)
To adjust company averaging adjustment to reflect Commission-approved 13 month average plant.		\$776
		(\$154,763)
<u>Accumulated Depreciation</u>		
To remove test year unsupported plant accumulated depreciation.		\$4,262
To reflect Commission-approved 13 month average accumulated depreciation.		(\$11,916)
		(\$7,654)
<u>Working Capital</u>		
To reflect Commission-approved simple average rate case expense.		\$7,806

Peoples Water Service Company of Florida, Inc.
 Capital Structure-13-Month Average
 Test Year Ended 12/31/08

Schedule No. 2
 Docket No. 080695-WU

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
2 Short-term Debt	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
4 Common Equity	3,187,570	0	\$3,187,570	(23,366)	\$3,164,204	88.98%	9.74%	8.67%
5 Customer Deposits	115,984	0	\$115,984	0	\$115,984	3.26%	6.00%	0.20%
6 Deferred Income Taxes	<u>277,917</u>	<u>0</u>	<u>\$277,917</u>	<u>(2,021)</u>	<u>\$275,896</u>	<u>7.76%</u>	0.00%	<u>0.00%</u>
10 Total Capital	<u>\$3,581,471</u>	<u>\$0</u>	<u>\$3,581,471</u>	<u>(\$25,387)</u>	<u>\$3,556,084</u>	<u>100.00%</u>		<u>8.86%</u>
Per Commission								
11 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.10%	0.00%
12 Short-term Debt	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
14 Common Equity	3,187,570	(10,272)	\$3,177,298	\$159,949	3,337,247	89.00%	9.67%	8.60%
15 Customer Deposits	115,984	(1,111)	\$114,873	\$5,783	120,656	3.22%	6.00%	0.19%
16 Deferred Income Taxes	<u>277,917</u>	<u>0</u>	<u>\$277,917</u>	<u>\$13,991</u>	<u>291,908</u>	<u>7.78%</u>	0.00%	<u>0.00%</u>
20 Total Capital	<u>\$3,581,471</u>	<u>(\$11,383)</u>	<u>\$3,570,088</u>	<u>\$179,722</u>	<u>\$3,749,810</u>	<u>100.00%</u>		<u>8.80%</u>
						<u>LOW</u>	<u>HIGH</u>	
						RETURN ON EQUITY	<u>9.67%</u>	<u>11.67%</u>
						OVERALL RATE OF RETURN	<u>8.80%</u>	<u>10.58%</u>

Peoples Water Service Company of Florida, Inc.
 Statement of Water Operations
 Test Year Ended 12/31/08

Schedule No. 3-A
 Docket No. 080695-WU

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	\$3,048,381	\$434,865	\$3,483,246	(\$420,199)	\$3,063,047	\$364,620 11.90%	\$3,427,667
Operating Expenses							
2 Operation & Maintenance	\$2,223,816	\$0	2,223,816	15,095	2,238,911		2,238,911
3 Depreciation	466,949	(5,902)	461,047	(4,262)	456,785		456,785
4 Amortization	(95,500)	(20,635)	(116,135)	0	(116,135)		(116,135)
5 Taxes Other Than Income	303,861	22,252	326,113	(18,909)	307,204	16,408	323,612
6 Income Taxes	<u>74,622</u>	<u>111,393</u>	<u>186,015</u>	<u>(122,404)</u>	<u>63,611</u>	<u>131,032</u>	<u>194,643</u>
7 Total Operating Expense	<u>2,973,748</u>	<u>107,108</u>	<u>3,080,856</u>	<u>(130,480)</u>	<u>2,950,376</u>	<u>147,440</u>	<u>3,097,816</u>
8 Operating Income	\$74,633	\$327,757	\$402,390	(\$289,719)	\$112,671	\$217,180	\$329,851
9 Rate Base	<u>\$3,529,811</u>		<u>\$3,904,420</u>		<u>\$3,749,809</u>		<u>\$3,749,809</u>
10 Rate of Return	2.11%		10.31%		3.00%		8.80%

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.
 Adjustment to Operating Income
 Test Year Ended 12/31/08

Schedule 3-B
 Docket No. 080695-WU

Explanation	Water
<u>Operating Revenues</u>	
Remove requested final revenue increase.	(\$434,865)
Adjust test year revenues for MMB multi-residential billing.	\$14,188
Include interest earned on \$10,440 of cash account (Audit finding No. 2).	\$478
	<u>(\$420,199)</u>
<u>Operation & Maintenance Expenses</u>	
To remove rate case expense included in contractual services-legal.	(\$15,911)
To remove non-utility expenses.	(\$9,978)
To remove out-of-test year expenses.	(\$294)
To reflect the appropriate amount of rate case expense	<u>\$41,278</u>
	\$15,095
<u>Depreciation Expense</u>	
To reduce test year depreciation expense for unsupported plant.	<u>(\$4,262)</u>
<u>Taxes Other Than Income</u>	
RAFs on revenue adjustments above.	(\$18,909)

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.						Schedule No. 4
Water Monthly Service Rates						Docket No. 080695-WU
Test Year Ended 12/31/08						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final*	Commission Approved Final*	4-year Rate Reduction	
Residential Meter Sizes						
(Minimum Charges* - Base Facility Charges per Month)						
5/8" x 3/4" (3,000 gallon minimum included in base charge)	\$ 10.05	\$ 11.02	\$ 11.31	\$ 5.52	\$0.08	
1" (6,300 gallon minimum included in base charge)	22.97	25.19	28.28	13.80	\$0.20	
1 1/4" (8,800 gallon minimum included in base charge)	32.76	35.92	39.59	22.08	\$0.33	
1 1/2" (10,900 gallon minimum included in base charge)	40.60	44.52	56.55	27.60	\$0.41	
2" (30,500 gallon minimum included in base charge)	107.41	117.78	90.48	44.16	\$0.65	
3" (64,600 gallon minimum included in base charge)	221.87	243.28	169.65	88.32	\$1.31	
4" (132,800 gallon minimum included in base charge)	450.81	494.31	282.75	138.00	\$2.05	
6" (269,100 gallon minimum included in base charge)	908.32	995.97	565.50	276.00	\$4.09	
Gallage Charges per 1,000 Gallons per Month						
First 3,000 gallons (included in minimum / base charge)		N/A	N/A			
Next 7,000 gallons in excess of minimum	\$ 3.91	\$ 4.29				
Next 10,000 gallons in excess of minimum	3.47	3.80				
Over 20,000 gallons per month	3.35	3.67				
First 7,000 gallons (no gallons included in base charge)			\$ 2.25			
7,001 - 15,000 gallons			3.38			
15,001 - 20,000 gallons			4.50			
Over 20,000 gallons			6.75			
First 3,000 gallons (no gallons included in base charge)				\$ 1.28	\$0.02	
3,001 - 6,000 gallons				4.31	\$0.06	
6,001 - 12,000 gallons				6.41	\$0.10	
Over 12,000 gallons				8.51	\$0.13	
General Service, Multi-Family, Public Authority, Hydrant, Meters & Irrigation (Minimum Charges* - Base Facility Charges per Month)						
5/8" x 3/4" (3,000 gallon minimum included in base charge)	\$ 10.05	\$ 11.02	\$ 11.31	\$ 5.52	\$0.08	
1" (6,300 gallon minimum included in base charge)	22.97	25.19	28.28	13.80	\$0.20	
1 1/4" (8,800 gallon minimum included in base charge)	32.76	35.92	39.59	22.08	\$0.33	
1 1/2" (10,900 gallon minimum included in base charge)	40.60	44.52	56.55	27.60	\$0.41	
2" (30,500 gallon minimum included in base charge)	107.41	117.78	90.48	44.16	\$0.65	
3" (64,600 gallon minimum included in base charge)	221.87	243.28	169.65	88.32	\$1.31	
4" (132,800 gallon minimum included in base charge)	450.81	494.31	282.75	138.00	\$2.05	
6" (269,100 gallon minimum included in base charge)	908.32	995.97	565.50	276.00	\$4.09	
8"			1,017.90	496.80	\$7.37	
10"			1,639.95	800.40	\$11.87	
Gallage Charges per 1,000 Gallons per Month						
First 3,000 gallons (included in minimum / base charge)		N/A	N/A			
Next 7,000 gallons in excess of minimum	\$ 3.91	\$ 4.29				
Next 10,000 gallons in excess of minimum	3.47	3.80				
Over 20,000 gallons per month	3.35	3.67				
Gallage charge per 1,000 gallons			\$ 2.75	\$ 3.53	\$0.05	
Fire Protection (Sprinklers and Private Fire Hydrants) - Base Facility Charges per Month						
2"	\$ 12.78	\$ 14.01	\$ 7.54	\$ 3.68	\$0.05	
3"	15.36	16.84	14.14	7.36	\$0.11	
4"	19.59	21.48	23.56	11.50	\$0.17	
6"	30.68	33.64	47.13	23.00	\$0.34	
8"	51.17	56.11	84.83	41.40	\$0.61	
10"	76.70	84.10	136.66	66.70	\$0.99	
Typical Monthly Bills for 5/8" x 3/4" Residential Customers						
3,000 gallons	\$ 10.05	\$ 11.02	\$ 18.06	\$ 9.36		
5,000 gallons	17.87	19.60	22.56	17.98		
10,000 gallons	37.42	41.05	37.20	47.93		
20,000 gallons	72.12	79.05	76.60	128.83		
30,000 gallons	105.62	115.75	144.10	213.93		
* Present minimum / base facility charges include monthly minimum usage. Neither the utility's proposed nor Commission's approved final base facility charges have monthly gallage minimums (allotments) included in the base facility charge.						

ATTACHMENT A

TABLE RS-2

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. COMMISSION-APPROVED RATE STRUCTURE FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS				
<u>Consumption in Kgals</u>	<u>Current Bill</u>	<u>Commission Approved (Alternative 4)</u>		
		<u>Bill</u>	<u>% Change</u>	
0	\$10.05	\$5.52	-45.1%	
1	\$10.05	\$6.80	-32.4%	
2	\$10.05	\$8.08	-19.6%	
3	\$10.05	\$9.36	-6.9%	
4	\$13.96	\$13.56	-2.9%	
5	\$17.87	\$17.75	-0.7%	
10	\$37.42	\$47.14	26.0%	
15	\$54.77	\$84.93	55.1%	
20	\$72.12	\$126.91	76.0%	
25	\$88.87	\$168.89	90.0%	
30	\$105.62	\$210.88	99.7%	

Commission-Approved Rate Structure: BFC with no allotments; inclining blocks for residential class, 0-3 kgals is priced at one-third the rate for 3.001-6 kgals and at pre-repression levels.