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## Public Service Commission

November 17, 2010

Ms. Anne Lee  
Commercial Utilities, Division of Grace & Co., Inc.  
865 South Lane Avenue  
Jacksonville, Florida 32205

**Re: Staff Assisted Rate Case for Commercial Utilities, Division of Grace & Co., Inc. in Duval County, Docket No. 100326-SU**

Dear Ms. Lee:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Commercial Utilities, Division of Grace & Co., Inc.  
865 South Lane Avenue  
Jacksonville, FL 32205

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

A handwritten signature in black ink that reads "Shannon J. Hudson".

Shannon J. Hudson  
Regulatory Analyst IV

Enclosures

SH/as

cc: Division of Economic Regulation (Maurey, Smith, Fletcher, Daniel, Simpson)  
Office of General Counsel (Teitzman, Brown, Murphy)  
Office of Commission Clerk (100326-SU)  
Mr. Howard E. Adams

DOCUMENT NUMBER DATE

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State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** November 10, 2010

**TO:** Andrew Maurey, Bureau Chief, Bureau of Rate Filings

**FROM:** Avy Smith, Regulatory Analyst II *AS*  
Robert Simpson, Engineering Specialist II *RS*

**RE:** Docket No. 100326-SU -- Application for staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Co., Inc.

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**- STAFF REPORT -**

**This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.**

### Case Background

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed January 27, 2011, for the February 8, 2011, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Commercial Utilities, Division of Grace & Company, Inc., (Commercial or Utility) is a Class C wastewater only facility located in the city of Jacksonville. Commercial serves 43 wastewater general service customers. The Utility was issued Certificate Nos. 219-W and 164-S on June 4, 1975. According to Commercial's 2009 Annual Report, gross revenues were \$246,308. The Utility's operating expenses were \$280,961.

The Utility's last staff-assisted rate case was in Docket No. 910766-WS, which resulted in Order No. PSC-93-0233-FOF-WS.<sup>1</sup> Commercial's water certificate was canceled by Order No. PSC-97-0094-FOF-WU,<sup>2</sup> issued January 27, 1997. All water service is now provided by the City of Jacksonville.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

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<sup>1</sup> See Order No. PSC-93-0233-FOF-WS, issued February 12, 1993, in Docket No. 910766-WS, In re: Application for a staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

<sup>2</sup> See Order No. PSC-97-0094-FOF-WU, issued January 27, 1997, in Docket No. 961268-WU, In re: Request for change in regulatory status and cancellation of Certificate No. 219-W in Duval County by Commercial Utilities, Division of Grace and Company, Inc.

### Discussion of Issues

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

**Preliminary Recommendation:** The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the December 8, 2010 customer meeting. (Simpson)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of wastewater operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed.

Commercial owns the wastewater collection system used to serve 43 general service customers near the intersection of I-10 and I-295 in Jacksonville. Bulk wastewater treatment service is provided by the City of Jacksonville. On August 10, 2009, the City of Jacksonville's Environmental and Compliance Department, Environmental Quality Division, issued a consent order to the Utility. The consent order found that property owned by the Utility was unlawfully diverting wastewater away from a septic tank/drain field system, resulting in an unlawful discharge of wastewater to surface waters and an exceedance of water quality standards. The Utility was allowed to pay a portion of the required fine and to install electronic monitoring systems at three lift stations in lieu of payment of the balance of the fine. On November 3, 2009, the consent order was closed because the Utility had complied with all of the provisions in the consent order. It appears that the quality of the Utility's product and the condition of the facilities are satisfactory.

The Consumer Activity Tracking System reflected one customer complaint in the last three years which was closed. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the December 8, 2010 customer meeting.

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

**Preliminary Recommendation:** The collection system should be considered 100 percent used and useful. (Simpson)

**Staff Analysis:** Commercial has a network of collection systems consisting of polyvinyl chloride (PVC) and clay lines with three lift stations. The Utility purchases bulk wastewater treatment from the City of Jacksonville. A review of the Utility's annual reports indicate that there was no growth in the last five years; therefore, it appears that the system is built out. Staff recommends that the collection system be considered 100 percent used and useful.

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

**Preliminary Recommendation:** The appropriate average test year rate base for Commercial is \$315,410. (Smith)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, amortization of intangible plant, and working capital.

Staff selected a test year ended June 30, 2010, for this rate case. The Utility's rate base was last established by Order No. PSC-93-0233-FOF-WS.<sup>3</sup> A summary of each component and the adjustments follows:

**Utility Plant in Service:** The Utility recorded \$524,655 in UPIS. Pursuant to Audit Finding No. 2, Commercial posted \$303,136 of an ordered \$343,080 intangible plant balance to Utility Account No. 389 – Other Plant and Miscellaneous Equipment. Staff recommends removing the \$303,136 amount from UPIS and reclassifying the amount to intangible plant, a separate rate base item. In addition, Commercial recorded a retirement of \$197,431 in 2004, in Account No. 389, related to the intangible plant balance. Staff has increased UPIS by \$197,431 to reclassify the retirement amount, and reflect the correct balance in Account No. 389. Staff has increased UPIS by \$41,385, \$9,280, and \$4,625 to include capital additions that were booked in prior years. Commercial incorrectly recorded plant additions totaling \$43,176, as O&M expenses. Accordingly, staff has increased UPIS by this amount.

The Utility provided an invoice for \$4,487 for wastewater service line upgrades completed outside of the test year. The Utility also provided an estimate of \$40,131 to replace 434 lineal feet of eight inch sewer main and install three new manholes, and an estimate of \$21,335 to rehabilitate ten existing manholes as pro forma additions. Staff believes the cost of \$4,487 for the wastewater service line upgrades is supported and should be included in this rate case. However, the amounts for remaining pro forma additions should not be included due to the fact that the work will not be completed within the next 12 months. Staff has decreased UPIS by \$20,709 to reflect the averaging adjustment. Staff's net adjustment to UPIS is a decrease of \$23,461. Staff's recommended UPIS balance is \$501,195.

**Non-Used and Useful Plant:** As discussed in Issue No. 2 of this recommendation, Commercial's wastewater system is 100 percent used and useful. Therefore, a non-used and useful adjustment is not necessary.

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<sup>3</sup> See Order No. PSC-93-0233-FOF-WS, issued February 12, 1993, in Docket No. 910766-WS, In re: Application for a staff-assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

**Intangible Plant:** By Order No. PSC-93-0233-PAA-WS, the Commission established balances of \$343,080 and \$12,694 for intangible plant and accumulated amortization of intangible plant, respectively, as of June 30, 1992. Order No. PSC-93-0233-PAA-WS states:

**Intangible Plant**

We transferred into this category all costs related to the wastewater interconnection that cannot be considered tangible plant, but does represent investment by the Utility. This includes a \$50,000 fee to hook into the City's lift stations, a \$287,204 impact fee charged by the city at the time of the interconnection, and \$5,876 in street repairs associated with construction of the force main.

The \$55,876 in hook-up and street repair costs were actual costs incurred and paid by the Utility during its last rate proceeding. The \$287,204 impact fee was a negotiated fee between Jacksonville Electric Authority (JEA) and the Utility that was never finalized in a written contract. The Utility commenced making monthly payments of \$4,121 to JEA in September 1992 that it identified as a monthly capacity fee. No asset or corresponding debt/equity balance was ever recorded by Commercial on its books and records for the impact fee balance. On July 11, 1997, Commercial notified JEA that its pending connection with a new wastewater customer violated the existing verbal agreement between the Utility and JEA. Subsequent negotiations with JEA failed to resolve the issue. In August 1997, Commercial unilaterally voided its obligations under the agreement and ceased making capacity fee payments to JEA as of September 1997. The following chart summarizes the actual impact fees paid by the Utility and the corresponding years paid:

Balance at	Actual Capacity Fee Payments	Intangible Plant Balance	Annual Accrual*	Amortization Balance
6/30/1992		\$55,876		\$2,069
12/31/1992	16,484	72,360	1,187	3,257
12/31/1993	49,452	121,812	3,172	6,428
12/31/1994	49,452	171,264	4,087	10,516
12/31/1995	49,452	220,716	5,003	15,519
12/31/1996	49,452	270,168	5,919	21,438
12/31/1997	32,968	303,136	6,224	27,662
12/31/1998		303,136	5,614	33,276
12/31/1999		303,136	5,614	38,889
12/31/2000		303,136	5,614	44,503
12/31/2001		303,136	5,614	50,116
12/31/2002		303,136	5,614	55,730
12/31/2003		303,136	5,614	61,344
12/31/2004		303,136	5,614	66,957
12/31/2005		303,136	5,614	72,571
12/31/2006		303,136	5,614	78,185
12/31/2007		303,136	5,614	83,798
12/31/2008		303,136	5,614	89,412
12/31/2009		303,136	5,614	95,025
6/30/2010		303,136	2,807	97,832
	<b>\$247,260</b>			

\*Accruals are calculated as 1/27 of the simple average intangible plant balance.

On January 12, 2000, the unresolved capacity fee dispute arose again when the City of Jacksonville, on behalf of JEA, threatened to withhold its approval of building permits for the construction of a new Home Depot that was to be connected to Commercial's wastewater system. The issue was abated on June 2, 2000, when the Utility agreed to place \$25,000 into an interest bearing escrow account pending the final resolution of its dispute with JEA. The capacity fee dispute has remained unchanged since that time.

Based on the above, staff recommends increasing this account by \$303,136 (\$50,000 hook-up fee + \$5,876 street repairs + \$247,260 impact fees paid), to reclassify the amount the Utility recorded in UPIS. Further, the Utility recorded a retirement of \$197,431 in UPIS. Staff has reversed the amount of the retirement included in UPIS and decreased intangible plant by \$197,431 to reflect the retirement. Staff has calculated \$97,832 for accumulated amortization of intangible plant. Additionally, staff recommends amortization expense of \$5,614. These amounts are based on the actual capacity fee transaction activity posted to the Utility's general ledger and the 27-year service life contained in the prior order mentioned above. Staff recommends intangible plant of \$105,705.

**Contribution in Aid of Construction:** The Utility recorded did not record any CIAC. By Order No. PSC-93-0233-FOF-WS, the Commission established a CIAC balance of \$15,440 in its last rate proceeding. The Utility initially posted the ordered balance. However, in 2004, Commercial reversed and wrote off the CIAC balance of \$15,440. No explanation was provided for the write-off. Staff recommends increasing CIAC by \$15,440 to reflect the appropriate balance.

**Accumulated Depreciation:** The Utility recorded a balance for accumulated depreciation of \$356,185. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is \$224,475. As a result, staff has decreased this account by \$131,710 to reflect accumulated depreciation calculated per staff. Staff decreased this account by \$8,089 to reflect an averaging adjustment. These adjustments result in accumulated depreciation of \$216,386.

**Amortization of CIAC:** Commercial recorded did not record any amortization of CIAC. This account has been increased by \$10,849 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$234 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$10,615.

**Amortization of Intangible Plant:** As discussed above, staff recommends amortization of intangible plant of \$97,832.

**Working Capital Allowance:** Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$27,554 (based on O&M of \$220,433).

**Rate Base Summary:** Based on the forgoing, staff recommends that the appropriate test year rate base is \$315,410. Rate base is shown on Schedule No. 1-A.

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

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 8.82 percent with a range of 7.82 percent to 9.82 percent. The appropriate overall rate of return is 8.78 percent. (Smith)

**Staff Analysis:** According to Audit Finding 7, Commercial's capital structure for the test year consists of the following:

<u>Account Description</u>	<u>Balance</u>
Accounts Payable-Commercial Utilities	\$220,325
Accounts Payable-Grace Brothers	430,500
Equity	<u>1,113,017</u>
Total	<u>\$1,763,842</u>

These balances are based on cash flow exchanges between related parties and its shareholders. There are no documents to support the liability that describe the terms, obligations or repayment of debt. Under this scenario, the Commission has treated such amounts as contributed capital in prior rate cases and included the amounts as equity.<sup>4</sup>

The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the most recent Commission-approved leverage formula, the appropriate rate of return on equity is 8.82 percent.<sup>5</sup> Staff recommends an ROE of 8.82 percent with a range of 7.82 percent to 9.82 percent, and an overall rate of return of 8.78 percent.

The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>4</sup> See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

<sup>5</sup> See Order No. PSC-10-0401-PAA-WS, issued June 19, 2010, in Docket No. 100006-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. That order was consummated by Order No. PSC-10-0446-CO-WS, issued July 13, 2010.

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

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$244,798.  
(Smith)

**Staff Analysis:** Commercial recorded test year water revenue of \$246,308. The Utility calculates and bills its customers for wastewater service based on monthly water consumption billing reports provided by JEA. Using test year billing analysis, staff has calculated revenues of \$244,798 for the test year. This results in a decrease of \$1,510 to Commercial's recorded test year revenues. Staff recommends test year revenue of \$244,798 for wastewater. Test year revenue is shown on Schedule No. 3-A, and the adjustment is shown on Schedule No. 3-B.

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

**Preliminary Recommendation:** The appropriate amount for operating expenses for this Utility is \$255,212. (Smith)

**Staff Analysis:** Commercial recorded operating expenses of \$298,871, for the test year ended June 30, 2010. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Purchased Wastewater Treatment (710) – Commercial recorded \$98,214 in this account during the test year. The Utility purchases bulk wastewater treatment from JEA. In October 2009, JEA increased the bulk wastewater service rates it charges. Staff recommends annualizing this account to reflect JEA's increase in bulk wastewater service rates. Staff has calculated annualized purchased wastewater treatment expenses of \$112,685. Accordingly, staff recommends increasing this account by \$14,471 to reflect the annualized effect of the increased rates on the actual amount of wastewater treatment. Staff recommends total purchased wastewater treatment expense for the test year of \$112,685.

Contractual Services - Professional (731) – Commercial recorded \$600 in this account. This amount includes four invoices totaling \$150 for the Utility's accounting firm to prepare and compile quarterly financial statements. The Utility also requested to include the annual report preparation fee in this rate case. Therefore, staff recommends increasing contractual services – professional by \$2,500 for an invoice from the same accounting firm mentioned above to prepare the Utility's annual report. Staff recommends contractual services – professional of \$3,100.

Contractual Services - Other (736) – Commercial recorded \$145,811 in this account. The Utility included \$130,555 for overhead allocated from the parent company. After reviewing the salary information provided by the Utility, staff believes the appropriate overhead allocation should be \$7,000 per month (\$84,000 annually). This amount includes \$5,000 per month for the payroll and benefits of two of the parent company's employees and \$2,000 per month for the Utility's office space, including property taxes, and office supplies in a building owned by the parent company. Staff recommends reducing contractual services – other by \$46,655 (\$130,555 - \$84,000). Commercial included \$15,256 in this account for repairs and monthly maintenance fees. Based on invoices provided by the Utility, the annual cost of monthly maintenance service for three lift stations is \$5,220. However the Utility only recorded \$4,785 for this service. Staff recommends increasing this account by \$435 (\$5,220 - \$4,785). Staff recommends increasing contractual services – other by \$675 for sewer line repairs that were incurred during the test year but not included. The annual cost to monitor the Utility's three lift stations is \$1,924. The Utility only recorded \$1,122 of this amount. Therefore, staff recommends increasing contractual services – other by \$802. Staff recommends contractual services – other of \$101,068 (\$145,811 - \$46,655 + \$435 + \$675 + \$802).

Regulatory Commission Expense (765) – Commercial recorded \$2,377 in this account. This amount reflects three invoices for consulting and legal services to prepare for this rate case proceeding. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has

estimated \$38 for postage expense, \$30 for printing expense, and \$4 for envelopes. The above results in \$72 for postage, mailing notices, and envelopes. Commercial paid a \$1,000 rate case filing fee. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends that total rate case expense is \$3,449 (\$2,377 + \$72 + \$1,000), which amortized over four years is \$862.

Miscellaneous Expense (675) – The Utility recorded \$45,027 in this account. This expense has been decreased by \$1,410, \$36,309, and \$5,457 to reclassify miscellaneous expenses that should have been recorded in Account Nos. 354, 360, and 389, respectively. Staff recommends increasing miscellaneous expense by \$18 to include an invoice for office services that were not included in the test year. The total adjustment for miscellaneous expenses is a decrease of \$43,158. Staff recommends miscellaneous expense of \$1,869.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M result in a decrease of \$72,445. Staff's recommended O&M expense is \$220,433. O&M expenses are shown on Schedule No. 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded \$19,425 in this account. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation is \$16,923. Thus, staff has made an adjustment to decrease depreciation expense by \$2,502. Staff has decreased amortization of CIAC by \$489 based on composite rates. This results in a net depreciation expense of \$16,434.

Intangible Plant Amortization Expense – As discussed in Issue 3, staff's recommended intangible plant amortization expense is \$5,614.

Taxes Other Than Income – Commercial recorded \$11,555 in this account for regulatory assessment fees (RAFs). Based on staff's recommended test year revenues, the Utility's RAFs should be \$11,016. Therefore, staff has decreased this account by \$539 to reflect the appropriate RAFs. As discussed in Issue 7, revenues have been increased by \$38,107 to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$1,715 to reflect RAFs of 4.5 percent on the change in revenues. Accordingly, staff's recommended TOTI is \$12,731.

Operating Expenses Summary – The application of staff's recommended adjustments to Commercial's recorded test year operating expenses results in staff's recommended operating expenses of \$255,212. Operating expenses are shown on Schedule No. 3-A, and adjustments are shown on Schedule No. 3-B.

**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$282,905. (Smith)

**Staff Analysis:** The Utility should be allowed an annual increase of \$38,107 (15.57 percent). This will allow Commercial the opportunity to recover its expenses and earn an 8.78 percent return on its investment. The calculation is as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$315,410
Rate of Return	x .0878
Return on Rate Base	<u>\$27,693</u>
Adjusted O&M expense	220,433
Depreciation expense (Net)	16,434
Amortization	5,614
Taxes Other Than Income	12,731
Income Taxes	<u>0</u>
Revenue Requirement	<u>\$282,905</u>
Less Test Year Revenues	<u>244,798</u>
Annual Increase	<u>\$38,107</u>
Percent Increase/(Decrease)	<u>15.57%</u>

**Issue 8:** What are the appropriate rates for this Utility?

**Preliminary Recommendation:** The appropriate monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenue of \$282,905, excluding miscellaneous service charges. Commercial 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 no less than 10 days after the date of the notice. (Smith)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended rates should be designed to produce revenue of \$282,905.

The appropriate rate structure for the Commercial's non-residential class is a continuation of the BFC/uniform gallonage charge rate structure. Staff has applied a 15.57 percent across the board increase to the Utility's existing 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 no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate wastewater rates are shown on Schedule No. 4.

**Issue 9:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Preliminary Recommendation:** The wastewater 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 four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If Commercial 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. (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 the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$903. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

Commercial should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

**Issue 10:** Should Commercial's request for customer deposits and non-sufficient funds (NSF) fees be approved?

**Preliminary Recommendation:** Yes. Commercial's request for initial customer deposits and non-sufficient funds (NSF) fees should be approved. The Utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The tariff sheets containing customer deposits and non-sufficient funds fees should become effective for services rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475, F.A.C. (Smith)

**Staff Analysis:** Currently, Commercial does not have a tariffed charge for customer deposits or non-sufficient funds fees. By letter dated, July 29, 2010, the Utility requested a revision to the current tariffs to collect customer deposits and non-sufficient funds fees. The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new Utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

<u>Meter Size</u>	<u>Staff Recommended Wastewater Deposit</u>
General Service	
5/8" x 3/4"	2 x average bill
All over 5/8" x 3/4"	2 x average bill

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility should refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

The Utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Non-Sufficient Funds Fees

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Commercial has requested to collect NSF fees in accordance with the Section 832.08(5), F.S.

Staff believes the fees should be established 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 832.08(5), the following fees 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 five percent of the face amount of the check, whichever is greater.

Based on the above, Commercial's request for initial customer deposits and non-sufficient funds, NSF fees should be approved. The Utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The tariff sheets containing customer deposits and non-sufficient funds fees should become effective for services rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475, F.A.C. Staff recommends revision of Commercial's current tariffs to reflect NSF fees and charges set by Sections 68.065 and 832.08(5) F.S., as may be amended. Approval of NSF fees is consistent with prior Commission decisions.<sup>6</sup>

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<sup>6</sup> See Order Nos. PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.; and PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

**Issue 11:** Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of protest filed by a party other than the Utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. 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 Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Smith)

**Staff Analysis:** This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, 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. 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 \$25,449. Alternatively, the Utility could establish an escrow agreement with an independent financial institution in the amount of \$25,449.

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

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

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

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

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

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 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 bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 12:** Should the Utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with requirements of Rule 25-30.115, F.A.C., to maintain its accounts and records in conformance with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA), and to adjust its books to reflect the adjustments to all the applicable primary accounts as required by Order No. PSC-00-1508-PAA-SU?

**Preliminary Recommendation:** This issue is pending. Staff is currently awaiting the Utility's response to a letter sent by staff on October 19, 2010.

**Staff Analysis:** This issue is pending. Staff is currently awaiting the Utility's response to a letter sent by staff on October 19, 2010.

**Issue 13:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

**Preliminary Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Commercial should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Smith)

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

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC. TEST YEAR ENDING 6/30/10 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 100326-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$524,655	(\$23,461)	\$501,195
2. LAND & LAND RIGHTS	0	0	0
3. INTANGIBLE PLANT	0	105,705	105,705
4. NON-USED AND USEFUL COMPONENTS	0	0	0
5. CIAC	0	(15,440)	(15,440)
6. ACCUMULATED DEPRECIATION	(356,185)	139,799	(216,386)
7. AMORTIZATION OF CIAC	0	10,615	10,615
8. AMORTIZATION OF INTANGIBLE PLANT	0	(97,832)	(97,832)
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>27,554</u>	<u>27,554</u>
10. WASTEWATER RATE BASE	<u>\$168,470</u>	<u>\$146,940</u>	<u>\$315,410</u>

**COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.**  
**TEST YEAR ENDING 6/30/10**  
**ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B**  
**DOCKET NO. 100326-SU**

**WASTEWATER**

**UTILITY PLANT IN SERVICE**

1. To remove Intangible Plant.	(\$303,136)
2. To reverse retirement.	197,431
3. To include capital additions from prior years.	41,385
4. To include capital additions from prior years.	9,280
5. To include capital additions from prior years.	4,625
6. To reclassify capital additions book in O&M Expenses.	43,176
7. To reflect pro forma plant addition.	4,487
8. To reflect averaging adjustment.	<u>(20,709)</u>
Total	<u>(\$23,461)</u>

**INTANGIBLE PLANT**

1. To reflect hook-up fee.	\$50,000
2. To reflect street repairs.	5,876
3. To reflect impact fees.	247,260
4. To reclassify retirement from UPIS.	<u>(197,431)</u>
Total	<u>\$105,705</u>

**CIAC**

To reflect unrecorded CIAC.	<u>(\$15,440)</u>
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**ACCUMULATED DEPRECIATION**

1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$131,710
2. To reflect averaging adjustment.	8,089
Total	<u>\$139,799</u>

**AMORTIZATION OF CIAC**

1. To reflect the appropriate balance.	\$10,849
2. To reflect averaging adjustment.	(234)
Total	<u>\$10,615</u>

**AMORTIZATION OF INTANGIBLE PLANT**

To reflect the appropriate balance.	<u>(\$97,832)</u>
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**WORKING CAPITAL ALLOWANCE**

To reflect 1/8 of test year O&M expenses.	<u>\$27,554</u>
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COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.  
 TEST YEAR ENDING 6/30/10  
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2  
 DOCKET NO. 100326-SU

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>1,763,842</u>	<u>0</u>	<u>1,763,842</u>					
5. TOTAL COMMON EQUITY	<u>\$1,763,842</u>	<u>\$0</u>	<u>\$1,763,842</u>	<u>(\$1,455,482)</u>	<u>\$308,360</u>	<u>97.76%</u>	<u>8.82%</u>	<u>8.62%</u>
6. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	10.88%	0.00%
7. OTHER LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>10.88%</u>	<u>0.00%</u>
8. TOTAL LONG TERM DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>		
9. CUSTOMER DEPOSITS	<u>7,050</u>	<u>0</u>	<u>7,050</u>	<u>0</u>	<u>7,050</u>	<u>2.24%</u>	7.00%	<u>0.16%</u>
10. TOTAL	<u>\$1,770,892</u>	<u>\$0</u>	<u>\$1,770,892</u>	<u>(\$1,455,482)</u>	<u>\$315,410</u>	<u>100.00%</u>		<u>8.78%</u>
			RANGE OF REASONABLENESS			<u>LOW</u>	<u>HIGH</u>	
			RETURN ON EQUITY			<u>7.82%</u>	<u>9.82%</u>	
			OVERALL RATE OF RETURN			<u>7.80%</u>	<u>9.75%</u>	

**COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.**  
**TEST YEAR ENDING 6/30/10**  
**SCHEDULE OF WASTEWATER OPERATING INCOME**

**SCHEDULE NO. 3-A**  
**DOCKET NO. 100326-SU**

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$246,308</u>	<u>(\$1,510)</u>	<u>\$244,798</u>	<u>\$38,107</u> 15.57%	<u>\$282,905</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	298,871	(78,438)	220,433	0	220,433
3. DEPRECIATION (NET)	19,425	(2,991)	16,434	0	16,434
4. INTANGIBLE PLANT AMORTIZATION EXPENSE	0	5,614	5,614	0	5,614
5. TAXES OTHER THAN INCOME	11,555	(539)	11,016	1,715	12,731
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$329,851</u>	<u>(\$76,354)</u>	<u>\$253,497</u>	<u>\$1,715</u>	<u>\$255,212</u>
8. OPERATING INCOME/(LOSS)	<u>(\$83,543)</u>		<u>(\$8,699)</u>		<u>\$27,693</u>
9. WASTEWATER RATE BASE	<u>\$168,470</u>		<u>\$315,410</u>		<u>\$315,410</u>
10. RATE OF RETURN	<u>(49.59%)</u>		<u>(2.76%)</u>		<u>8.78%</u>

**COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.**  
**TEST YEAR ENDING 6/30/10**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**DOCKET NO. 100326-SU**  
**PAGE 1 of 2**

**WASTEWATER**

**OPERATING REVENUES**

1. To adjust utility revenues to audited test year amount. (\$1,510)

**OPERATION AND MAINTENANCE EXPENSES**

1. Purchased Wastewater Treatment (710)  
 a. To reflect increase in bulk wastewater service rates. \$14,471

2. Contractual Services - Professional (731)  
 a. To reflect the Annual Report preparation fee. \$2,500

3. Contractual Services - Other (736)  
 a. To reflect the appropriate management fee. (\$46,655)  
 b. To reflect the appropriate cost of lift station maintenance. 435  
 c. To reflect sewer line repairs. 675  
 d. To reflect the appropriate cost to monitor the Utility's lift stations. 802  
 Subtotal (\$44,743)

4. Regulatory Commission Expenses (765)  
 a. To reflect notice expenses. \$72  
 b. To reflect filing fee. 1,000  
 c. To reflect 4 year amortization of rate case expense. (2,587)  
 Subtotal (\$1,515)

5. Miscellaneous Expense (775)  
 a. To capitalize and reclassify expense to Acct. No. 354. (\$1,410)  
 b. To capitalize and reclassify expense to Acct. No. 361. (36,309)  
 c. To capitalize and reclassify expense to Acct. No. 371. (5,457)  
 d. To include invoice for office services. 18  
 Subtotal (\$43,158)

**TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** **(\$72,445)**

**COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.**  
**TEST YEAR ENDING 6/30/10**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**DOCKET NO. 100326-SU**  
**PAGE 2 of 2**

**WASTEWATER**

<b>1. DEPRECIATION EXPENSE</b>	
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$2,502)
b. To reflect Accumulated Amortization of CIAC.	(489)
Total	<u>(\$2,991)</u>
<b>2. INTANGIBLE PLANT AMORTIZATION EXPENSE</b>	
a. To reflect the appropriate intangible plant amortization exp.	<u>\$5,614</u>
<b>3. TAXES OTHER THAN INCOME</b>	
a. To reflect appropriate RAFs.	<u>(\$539)</u>

**COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.**  
**TEST YEAR ENDING 6/30/10**  
**ANALYSIS OF WASTEWATER OPERATION**  
**AND MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 100326-SU**

	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0		\$0
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	98,214	14,471	[1]	112,685
(711) SLUDGE REMOVAL EXPENSE	0	0		0
(715) PURCHASED POWER	849	0		849
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	0	0		0
(720) MATERIALS AND SUPPLIES	0	0		0
(730) CONTRACTUAL SERVICES - BILLING	0	0		0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	600	2,500	[2]	3,100
(735) CONTRACTUAL SERVICES - TESTING	0	0		0
(736) CONTRACTUAL SERVICES - OTHER	145,811	(44,743)	[3]	101,068
(740) RENTS	0	0		0
(750) TRANSPORTATION EXPENSE	0	0		0
(755) INSURANCE EXPENSE	0	0		0
(765) REGULATORY COMMISSION EXPENSES	2,377	(1,515)	[4]	862
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>45,027</u>	<u>(43,158)</u>	[5]	<u>1,869</u>
	<u>\$292,878</u>	<u>(\$72,445)</u>		<u>\$220,433</u>

COMMERCIAL UTILITIES, DIVISION OF GRACE & COMPANY, INC.		SCHEDULE NO. 4	
TEST YEAR ENDING 6/30/10		DOCKET NO. 100326-SU	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<b>General Service</b>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$27.54	\$31.83	\$0.10
3/4"	\$71.49	\$82.62	\$0.26
1"	\$107.26	\$123.96	\$0.40
1-1/2"	\$143.02	\$165.28	\$0.53
2"	\$228.81	\$264.43	\$0.84
3"	\$457.61	\$528.84	\$1.69
4"	\$715.05	\$826.36	\$2.64
Gallage Charge per 1,000 gallons	\$3.71	\$4.29	\$0.01
<u>Typical 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$38.67	\$44.69	
5,000 Gallons	\$46.09	\$53.26	
10,000 Gallons	\$64.64	\$74.70	