

CFAT H2o, Inc.
P.O. Box 5220
Ocala, Fl 34478-5220
352-622-4949

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March 24, 2011

Ms. Ann Cole
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: Docket No. 100126-WU
Synopsis

Dear Ms. Cole,

Attached please find our prepared "Synopsis" for approval by staff.

Sincerely



Charles deMenzes

DOCUMENT NUMBER-DATE

01972 MAR 25 =

FPSC-COMMISSION CLERK

CFAT H2o, INC.

APPLICATION FOR INCREASE IN RATES IN MARION COUNTY, FLORIDA

DOCKET NO. 100126-WU

SYNOPSIS

DOCUMENT NUMBER-DATE

01972 MAR 25 =

FPSC-COMMISSION CLERK

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I. Purpose

In accordance with the Florida Public Service Commission's Rule 25-22.0407 regarding Notice of and Public Information on General Rate Increase Requests, a utility requesting a rate increase must prepare and distribute a synopsis of the rate request. The following information will provide the background on the rate request of CFAT H2o, INC. ("Utility") and the rate case process in general.

II. Comparison of the Prior, Interim and Proposed Final Rates

On September 28, 2010, the Utility filed an application with the Florida Public Service Commission ("Commission") for increased water and wastewater rates for its customers in Seminole County, Florida. The application was assigned Docket No. 100126-WU and September 28, 2010, was established as the official date of filing.

The Utility has requested a permanent revenue increase of \$51,500 or 118.00%, for its water system. The requested increase would produce annual revenues of \$95,079 for its water operations. On November 30, 2010 the Commission approved interim water rates designed to produce a water revenue increase of \$42,792 or 97.06%. The interim rates are subject to refund with interest, provided the Commission finds that the Utility was not entitled to collect such rates pending the final Commission decision. A schedule of the Utility's rates prior to filing, the Utility's requested interim and final rates, and the Commission's approved interim rates, follow.

WATER SERVICE

<u>Residential, General Service, Bulk Sales and Multi-Family</u>	<u>Rates Prior to Filing</u>	<u>Utility's Requested Interim Rates</u>	<u>Utility's Requested Final Rates</u>	<u>Commission Approved Interim Rates</u>
Base Facility Charge:				
<u>Meter Size</u>				
5/8" x 3/4"	\$9.97	\$20.23	\$21.48	\$19.65
1"	\$24.93	\$50.88	\$53.77	\$49.13
1 1/2"	\$49.86	\$101.15	\$107.42	\$98.25
2"	\$79.78	\$161.84	\$171.89	\$157.21
3"	\$159.58	\$323.72	\$343.80	\$314.46
4"	\$249.33	\$492.13	\$519.3	\$491.32
Gallage Charge (per 1,000 gallons)	\$1.63	\$3.30	\$3.51	\$3.21

III. General Reasons for Rate Request

The Utility is requesting a rate increase because the existing rates do not provide sufficient revenues to cover the required expenses of operations on a going-forward basis and a fair return on the Utility's investment in used and useful property for public use. The Utility has not had a rate increase since the Commission established the current rates in 1993. Since that time, the Utility has incurred substantial additional operating costs and capital investment.

The rate of return on equity requested in this proceeding is 10.85%. The overall return requested (the weighted cost of debt and equity) is 6.28%. The overall rate of return, which the Utility is currently earning without a rate increase, is negative 3.97% for its water operations.

IV. Major Rate Case Issues

It is impossible to anticipate all the issues that may develop during a rate case. However, the following issues are anticipated to be the major areas considered:

1. What is the test year rate base?
2. What is the test year net operating income?
3. What is the test year cost of capital?
4. What is the test year revenue requirement?
5. What is the proper rate design to recover the test year revenue requirement?

V. Description of the Ratemaking Process

Participants

Many people are involved in a utility rate case. The following is a list of some of the main participants:

1. The Commission is composed of five **Commissioners** appointed by the Governor. If a Proposed Agency Action Order (as described below) is protested by a person whose substantial interests are affected by the order, a hearing is scheduled and may be heard by a panel of three Commissioners. The Commissioners who hear this case will make a final decision on all of the issues in the case.
2. The Commissioners are assisted by the **Commission Staff**. The Commission Staff members involved in the case include engineers, accountants, attorneys, consumer affair specialists, economists, engineers and financial analysts.
3. The **Public Counsel** is appointed by the Legislature to represent the citizens in rate

cases before the Commission. Public Counsel also has a staff of attorneys, accountants and financial analysts. The Public Counsel may monitor the case or may participate.

4. The **Utility's** officers and staff personnel may testify about the utility, its operation, revenue and expenses. The utility may also employ outside consultants as expert witnesses and an attorney or other specialists to assist them with the rate case. The accountants, financial analysts and engineers compile information in support of the rate increase request and testify at hearings.
5. **Interveners** representing organizations, local governments, consumer groups, and commercial organizations may participate. An intervener is a party who legally intervenes in the rate case through petition to the Commission to represent a specific interest or point of view in the rate case. The intervener has equal opportunity with other parties in the case to ask questions, present testimony and cross examine witnesses.

Rate Case Requirements

A test year is requested by the utility, and when approved, is used as a measuring point to determine if a rate increase should be approved. The utility files an application pursuant to Commission rules (**minimum filing requirements** or **MFRs**). This application reflects the amount of money the utility has invested in its facilities to serve its customers. It also includes the utility's requested rate of return on its investment and the expenses the utility incurs to provide service for the test year. The data provides information about the operations of the company, supplies and expenses, taxes, construction, depreciation and all of the operating and financial matters that are crucial to a decision. The utility will also be requested to file additional information before the case is over. Among the things the Commission looks for are expenditures that could be considered unnecessary, improper or imprudent. Expenditures of this kind are disallowed for ratemaking purposes.

The Commission and the Commission Staff review the application, and the Commission determines whether interim rates are appropriate to be collected during the pendency of the rate case. If interim rates are authorized and charged, those rates are subject to refund with interest pending the Commission's final decision in the case.

The Commission Staff performs an audit of the utility's books and records for agreement with the utility's MFRs, and that the utility is in compliance with Commission's rules and policies. The Commission Staff auditors issue a report of their findings which is filed with the Commission. The Commission Staff also performs other analyses and requests additional documentation in its review of the utility's rate request. These analyses include a physical inspection of the utility's facilities and a review of records filed with other regulatory agencies regarding the utility's compliance with environmental and operating standards as well as the utility's quality of service provided.

PAA Procedures

A utility may ask that its application be processed using the Commission's Proposed Agency Action (PAA) procedure, as the Utility has done in this case.

Under this procedure, the Commission Staff holds a customer meeting in the utility's service territory to obtain information from the customers on the utility's service and other issues regarding the requested rate increase. After the Commission Staff have completed their audit, reviewed the information filed by the utility and comments received from the customers at the customer meeting, the Commission Staff makes a recommendation to the Commission as to whether a rate increase should be granted, and, if so, the amount of the rate increase. This recommendation is presented to the Commission at a public agenda conference in Tallahassee at which the Commissioners consider the Commission Staff recommendations and vote on each issue identified by the Commission Staff.

The Commission Staff attorneys then prepare a formal order containing the Commission's proposed action, including the new rates and the effective date of those rates. Persons whose substantial interests are affected by the proposed action have 21 days after this written order is issued to decide whether to accept the Commission's decision or to request a formal hearing by protesting the order.

If no party protests the order, the Commission's decision becomes final, a consummating order is issued, the new rates go into effect, and the docket is closed.

Hearings

If any person whose substantial interests are affected objects to the Commission's approved rates and requests a formal hearing, then the Commission schedules public hearings on the rate case. These hearings are governed by rules similar to those used by courts. Witnesses are sworn and subject to cross-examination, and the final decision must be based upon information presented to the Commission during the hearings. At this time, customer testimony is given regarding quality of service. The customers also may testify about rates and charges they consider improper or unfairly discriminatory.

The Public Counsel is empowered to represent the interests of consumers in matters before the Commission. The Public Counsel may participate in major rate cases, has access to all the information filed by the utility, assists members of the public who wish to testify, and may even provide expert witnesses on various issues in the case.

Witnesses from the utility, the Commission Staff, the Public Counsel and Interveners present testimony and are cross-examined. There are official transcripts of all hearings. Court Reporters record the hearings, just as they do in a courtroom.

Completing the Rate Case

After the hearings are completed, briefs are usually filed by all parties to the case. The briefs summarize each party's position on the issues. The Commission Staff then makes recommendations to the Commissioners on each issue of the case. When the

Commission makes its final decision there will be a "vote sheet" which reflects the Commission's resolution of the issues. There are many issues in a major rate case, and it sometimes takes the Commissioners several hours to complete the final review of the case and to resolve the issues based on the evidence in the record.

The Commission Staff attorneys prepare a formal order reflecting the Commission's decision on the rate request. After the Commission's order is issued, any party may ask the Commission to reconsider any decision on the issues. After reconsideration, the Public Counsel, the utility or any other party may appeal the Commission's decision to the courts.

VI. Tentative Time Schedule

The following tentative schedule was established by the Commission for the remaining major events in the Utility's rate case:

<u>Schedule Item</u>	<u>Due Dates</u>
Staff Recommendation on Interim Rates	November 16, 2010
Agenda Conference on Interim Rates	November 20, 2010
Order on Interim Rates	December 20, 2010
Staff Audit Report	September 26, 2006
Customer Meeting	April 28, 2011
Staff's Proposed Agency Action (APAA@) Recommendation	June 29, 2011
Agenda Conference on PAA Rates	July 12, 2011
PAA Order	August 1, 2011
Protest Period Expires	August 22, 2011

VII. Location of MFRs and Synopsis for Review

All of the information on file at the Commission is open to the public and is available for review at the Commission offices in Tallahassee. The MFRs filed by the Utility are also available for inspection at the following locations:

CFAT H2o, Inc. 1410 NE 8th Avenue Ocala, FL 34470	Landfair Homes 2376 NE 77 th Loop Ocala, FL 34479	Hilltop Manor 7334 NE Jax Road Ocala, FL 34479
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Office Hours: Monday through Friday
9:00 a.m. to 5 p.m.

Customer comments concerning the Utility's service and its request for an increase in rates should be addressed to the Director, Commission Clerk and Administrative Services, at the Florida Public Service Commission:

Florida Public Service Commission
Director, Division of Commission Clerk and Administrative Services
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Complaints may also be made by phone to the Commission's Division of Consumer Affairs at 1-800-342-3552 or submitted through the Public Service Commission's toll-free facsimile line at 1-800-511-0809. The Commission also has a web-site available at <http://floridapsc.com/consumers/complaint/>.

All comments should include reference to Commission Docket No. 100126-WU, and the name of the utility, CFAT H2o, Inc.