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

DATE: August 11, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Davis, Daniel, Fletcher, Lingo, Maurey, Rieger, Stallcup, Thompson) *Yes*
Office of the General Counsel (Jaeger) *SC*

BE *ALM* *SDK* *PK* *CRB*

RE: Docket No. 100127-WS – Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.

AGENDA: 08/23/11 – Regular Agenda – Proposed Agency Action except for Issue Nos. 20 and 21 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Graham

CRITICAL DATES: 08/31/11 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100127.RCM.DOC

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Case Background

Tradewinds Utilities, Inc. (Tradewinds or Utility) is a Class B utility providing water and wastewater services in Marion County. The Utility serves approximately 501 water and 292 wastewater customers. Water and wastewater rate bases were last established for this Utility in 1994.¹ The instant rate case is Tradewinds' first rate case.

On September 28, 2010, Tradewinds filed its application for the rate increase at issue in this docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple average period ended December 31, 2009.

By Order No. PSC-10-0731-PCO-WS, Tradewinds was granted an interim rate increase designed to generate annual water revenues of \$199,011 and annual wastewater revenues of \$229,595.² This represents a water revenue increase on an annual basis of \$75,669 (61.35 percent) and a wastewater revenue increase on an annual basis of \$20,716 (9.92 percent). The Utility requested final rates designed to generate annual water revenues of \$207,284 and wastewater revenues of \$240,138. This represents a revenue increase of \$83,750 (67.80 percent) for water and \$35,750 (17.49 percent) for wastewater.

This recommendation addresses Tradewinds' requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

¹ See Order No. PSC-94-0245-FOF-WS, issued March 4, 1994, in Docket No. 930524-WS, In re: Application for a staff-assisted rate case in Marion County by Tradewinds Utilities, Inc. This order was effectuated through a stipulation approved by Order No. PSC-95-0064-S-WS, issued January 12, 1995.

² See Order No. PSC-10-0731-PCO-WS, issued December 15, 2010.

Discussion of Issues

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

Recommendation: Yes. The quality of service provided by Tradewinds is satisfactory. (Rieger)

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 operations. These components are the quality of the Utility's product, the operational condition of the Utility's plants and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed, as well as the Utility's compliance with the rules and regulations of the Department of Environmental Protection (DEP).

Quality of Utility's Product and Operational Condition of Plants and Facilities

Tradewinds is current in all of the DEP-required chemical analyses and treatment standards for water. In an April 13, 2011 Compliance Inspection Report concerning Tradewinds' water treatment system, DEP found deficiencies concerning failures to establish and implement a cross-connection control program and to maintain records documenting flushing of dead-end mains. For wastewater, a November 16, 2010 inspection report found the wastewater treatment plant to be out of compliance for effluent quality, records and reporting concerning acknowledgement of exceeding total suspended solids limits, plant operational problems, and out-dated flow measurement calibration.

In November 2010, the Utility changed the contract operators who operate and maintain Tradewinds' facilities. With this change, it appears that the water and wastewater compliance issues are being adequately addressed. For water, with the help of the new operating company, the Utility has formulated a flushing program plan, and implemented a backflow prevention and cross-connection control policy. For wastewater, the Utility's new operators have reported to DEP that it is in the process of evaluating the treatment process and making necessary adjustments to ensure that the facility will be in compliance. It appears that the Utility's attempts to address the compliance situations have helped address the DEP's concerns. The Utility timely responded to DEP's concerns within weeks of the inspections. Currently there are no outstanding warning letters or compliance orders issued. It appears that the new operators are improving the operational condition of the Tradewinds facilities.

In reference to compliance with the St. Johns River Water Management District (SJRWMD), the Utility is currently working to reconcile data discrepancies which were reflected in a water use audit. There is no enforcement activity at this time; therefore, it appears that the Utility is maintaining compliance with the SJRWMD.

The Utility's Attempt to Address Customer Satisfaction

Customer Meeting A customer meeting was held on June 16, 2011, in Ocala, Florida. Nine customers attended the meeting and two of the customers spoke. Although they had

concerns over the level of the proposed rate increase, neither of the customers who spoke had problems with the quality of service provided by the Utility.

Customer Complaints and Correspondence During the past three years, no customer complaints have been filed with the Commission and there are currently no active complaints on file. The Commission did receive correspondence from three customers who expressed concern over the proposed rate increase. In review of the customer complaints as reported in Tradewinds' filing, there was an April 2008 incident resulting from a lift station back-up malfunction. This situation allowed wastewater to back-up in the collection system, causing property damage for a customer. As indicated in a November 20, 2008 DEP consent order agreement with the Utility, as a compromise with the customer, Tradewinds obtained permission from the Marion County Health Department to release the customer from the Utility's system. This was necessary so that an On-Site Treatment System (septic tank) could be installed at the home. At the Utility's expense, a septic tank was installed on August 7, 2009, and is presently in use by the former customer. This matter appears to have been resolved and there has been no further indications of back-up problems.

Summary

In the Utility's last rate case, Docket No. 930524-WS, the quality of service was found to be satisfactory. Staff believes that the Utility is currently doing a satisfactory job of providing a quality product and maintaining good operational conditions at its plants and facilities. Also, based on the level of customer participation at the customer meeting and through complaints and correspondences received, it appears that the customers are generally satisfied with the Utility's provision of water and wastewater service. Therefore, staff recommends that Tradewinds' quality of service be considered satisfactory.

Issue 2: Should the audit adjustments to rate base and net operating income, to which the Utility agrees, be made?

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

Staff Analysis: Based on audit adjustments agreed to by the Utility, the adjustments to rate base and net operating income should be made as set forth in the table below.

Table 2-1

<u>Audit Finding</u>	<u>Description</u>
Finding No. 1	Commission-Ordered Adjustments, Retirements & Reclassification of Utility Plant
Finding No. 2	Commission-Ordered Adjustments for Accumulated Depreciation
Finding No. 3	Commission-Ordered Adjustments and Reclassification of Land
Finding No. 4	Reallocation and Reclassification of CIAC
Finding No. 5	Commission-Ordered Adjustments to Accumulated Amortization of CIAC
Finding No. 7	Remove Charitable Contribution from Operation and Maintenance (O&M) Expense
Finding No. 9	Correction of Taxes Other Than Income (TOTI) Tax Expense

Table 2-2 Water

<u>Audit Finding</u>	<u>Plant & Land</u>	<u>Depr. Expense</u>	<u>Accum. Depr.</u>	<u>Amort. Expense of CIAC</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>O&M Expense</u>	<u>TOTI</u>
No. 1	(\$52,582)							
No. 2		(\$5,478)	\$57,073					
No. 3	(112,500)							
No. 4					(\$12,535)			
No. 5				\$1,624		(\$27,144)		
No. 7							(\$250)	
No. 9								(\$536)
Total	(\$165,082)	(\$5,478)	\$57,073	\$1,624	(\$12,535)	(\$27,144)	(\$250)	(\$ 536)

Table 2-3 Wastewater

<u>Audit Finding</u>	<u>Plant & Land</u>	<u>Depr. Expense</u>	<u>Accum. Depr.</u>	<u>Amort. Expense of CIAC</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>TOTI</u>
No. 1	(\$15,776)						
No. 2		(\$6,431)	\$14,617				
No. 3	(\$24,717)						
No. 4					(\$12,669)		
No. 5				(\$4,311)		(\$31,744)	
No. 9							(\$14,287)
Total	(\$40,493)	(\$6,431)	\$14,617	(\$4,311)	(\$12,669)	(\$31,744)	(\$14,287)

Issue 3: What are the used and useful percentages of the Utility's water treatment plant, the ground storage tank, wastewater treatment plant, the water distribution system, and wastewater collection system?

Recommendation: The Utility's water treatment plant, storage tank, wastewater treatment plant, water distribution system, and wastewater collection system are 100 percent used and useful (U&U). (Rieger)

Staff Analysis: The Utility's service area is located adjacent to the City of Ocala in Marion County. Tradewinds serves 447 residential and 54 general service water customers. For wastewater, the Utility serves 254 residential and 38 general service customers. Because the service area is built out, the Utility asserts that its water and wastewater systems are 100 percent U&U.

Water Treatment Plant and Storage

The Utility's water system includes a water treatment plant (WTP) composed of three wells, a hypo-chlorination system for disinfection, two hydropneumatic/flow tanks, and one elevated storage tank. The water distribution system extends throughout the service area. Pursuant to Rule 25-30.4325(7), F.A.C., the used and useful calculation for a WTP with storage capacity is based on the peak demand, required fire flow, adjustment for any excessive unaccounted for water (EUW), and a growth allowance, divided by the firm reliable capacity of the wells.

The Utility has three wells with capacities of 185 gallons per minute (gpm) each for two of the wells and 950 gpm for the third well. Pursuant to Rule 25-30.4325(6), F.A.C., for systems with storage capacity, the firm reliable capacity should be based on 16 hours of pumping, excluding the capacity of the largest well. Therefore, the Utility's firm reliable capacity is 355,200 gallons per day (gpd). However, the Utility used total usable storage capacity of 185,000 gallons instead of its firm reliable capacity in its proposed U&U calculation.

Pursuant to Rule 25-30.4325(7)(b)1., F.A.C., the single maximum day in the test year when there is no unusual occurrence should be included in the U&U calculation. The actual peak day for the test year was 228,000 gallons which occurred on November 24, 2009. Staff believes that this number should be considered as an anomaly, since there may have been an unusual occurrence which caused it to be more than double the preceding and following days. The Utility used an average day in the peak month (March 2009) during the test year of 141,000 gallons, instead of the peak day in the test year. Having determined that November 24, 2009, was an anomaly, staff believes that the next highest peak day should be used as the single maximum day. This day occurred on March 14, 2009, and 191,000 gallons were pumped on that day.

Pursuant to Rule 25-30.4325(1)(e), F.A.C., EUW is unaccounted for water in excess of 10 percent of the amount produced. The Utility included 3,315 gpd of EUW in its U&U calculation. However, it appears that 3,315 gpd is the total unaccounted for water per day and not the EUW. The Utility's records reflect unaccounted for water of 2.8 percent. Therefore, because

unaccounted for water does not exceed 10 percent of the amount pumped, no adjustment should be made for EUW.

The Utility included an allowance for fire flow of 120,000 gpd based on local fire flow requirements. However, a growth allowance was not included in the Utility's U&U calculation because the system is built out. Staff recommends that, based on peak day demand of 191,000 gpd and a fire flow allowance of 120,000 gpd, divided by the firm reliable capacity of 355,200 gpd, the WTP is 88 percent U&U. However, because the service territory is built out, staff recommends that the WTP be considered 100 percent U&U.

Tradewinds has an elevated storage tank with useable storage capacity of 200,000 gallons. The U&U storage capacity is determined by dividing the peak demand by the useable storage capacity. An elevated storage tank is 100 percent usable, pursuant to Rule 25-30.4325(9)(a), F.A.C. Therefore, the storage tank should be considered 100 percent U&U because the Utility's 191,000 gpd peak day plus 120,000 gpd fire flow exceeds the useable storage capacity of 200,000 gpd, pursuant to Rule 25-30.4325, F.A.C.

Wastewater Treatment Plant

With a permitted capacity of 81,000 gpd based on annual average daily flow, the wastewater treatment plant is an extended aeration facility which consists of flow equalization, aeration, secondary clarification, chlorination, and aerobic digestion of residuals. Its treated effluent facility is a holding pond and a 2.34 acre sprayfield used for irrigation. Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's wastewater treatment plant (WWTP) is determined by dividing the average annual daily flow (58,715 gpd) by the permitted plant capacity (81,000 gpd). Consideration is given for growth and inflow and infiltration (I&I).

Excessive I&I occurs in areas that are prone to flooding as surface runoff water flows into the collection system through manholes and other exposed openings to the sewer system. That process is known as inflow. Infiltration occurs when groundwater gains entrance to sewers through pipe joints, broken pipes, cracks, and other similar faults in the collection piping system and lift stations. While wastewater collection systems are designed to carry unavoidable I&I amounts, when these amounts become excessive, a potential strain is put on the treatment system which could affect the quality of the treatment. Because it is the utility's responsibility to control the levels of I&I, its customers are not expected to pay for treatment of the excessive amounts. Therefore, adjustments to certain expenses such as purchased power and chemicals could result.

In its filing the Utility identified excess I&I of 19 percent; however, no calculation was provided. In response to inquiries, Tradewinds explained that its I&I calculation was based on the amount of water used to bill residential and general service customers, which does not include usage in excess of the 10,000 gallon cap on residential customer usage, compared with the total wastewater treated.

Staff recalculated the estimated I&I based on a comparison of 90 percent of the total residential usage (11,226,000), 96 percent of the total general service usage (5,779,000), an estimate of the allowable infiltration and inflow (5,000,000), and the total wastewater treated

during the test year (21,431,000), consistent with the method typically used by the Commission to estimate excessive I&I. Although the residential demand is often adjusted by 80 percent, in this case the residential demand was adjusted by 90 percent to reflect that a portion of the residential homes are low income, multi-family homes and more of the demand is expected to be returned to the sewer system. The estimated amount of allowable I&I is typically based on the size and length of the collection system lines. However, the company did not have sufficient records to provide that calculation; therefore, staff relied on comparable information for similar systems. In addition, based on Staff's review of the Utility's operational records, DEP reports, and onsite field investigation, there is little indication of any problems that would typically result in excessive I&I. The Utility's service area is not prone to flooding, and the water table does not appear to be a factor to affect the system. The collection system appears to be sound. Based on staff's review, there does not appear to be excessive I&I.

Based on the annual average daily flow during the test year, the wastewater treatment plant is 73 percent U&U. However, pursuant to Rule 25-30.432, F.A.C., staff recommends that the wastewater treatment plant is 100 percent U&U because the Utility's service territory is built out.

Water Distribution and Wastewater Collection Systems

The U&U analysis for the water distribution and wastewater collection systems are typically based on a comparison of the lots connected to the systems with the total number of lots within the distribution and collection systems. Consideration is also given for growth. In this case, growth is not considered a factor because the systems are built out. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

Issue 4: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$15,082 for the water operations and \$22,281 for the wastewater operations. (Davis, Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. Staff has recommended adjustments to Tradewinds' O&M expenses. As a result, staff recommends working capital allowances of \$15,082 for water and \$22,281 for wastewater be approved. This reflects a decrease of \$596 for water and \$1,200 for wastewater from the Utility's requested working capital allowances of \$15,678 for water and \$23,481 for wastewater.

Issue 5: What is the appropriate rate base for the test year ended December 31, 2009?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base is \$559,307 for water and \$170,766 for wastewater. (Davis, Fletcher)

Staff Analysis: Consistent with other recommended adjustments, the appropriate rate base for water is \$559,307 and wastewater is \$170,766. The schedule for rate base is attached as Schedule No. 1-A for water and Schedule No. 1-B for wastewater. The adjustments to rate base are shown on Schedule No. 1-C.

Issue 6: What is the appropriate return on equity?

Recommendation: The appropriate return on common equity is 11.16 percent based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Davis, Fletcher)

Staff Analysis: The return on equity (ROE) included in the Utility's filing is 10.85 percent. Based on the current leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of 14.50 percent, the appropriate ROE is 11.16 percent.³ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

³ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 7: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2009, is 6.09 percent. (Davis, Fletcher)

Staff Analysis: In its filing, the Utility requested an overall cost of capital of 6.11 percent. Tradewinds' capital structure consists of long-term debt, common equity, customer deposits, and shareholder loans. Staff is recommending adjustments to the Utility's filed capital structure.

First, in Audit Finding 10, staff auditors reduced long-term debt by \$668 to reconcile the loan balance to the correct year-end amount. In its response to the audit, the Utility did not object to this adjustment.

Second, staff auditors removed the related party refundable advance and loan balances of \$67,936 and \$5,903 because there was no documentation reflecting the terms, repayment or interest rate for these loans. In its response to the audit, Tradewinds asserted these monies were loaned to the Utility by its shareholders when needed and they plan on being paid back. Staff believes that monies loaned to Tradewinds by shareholders are essentially additional paid-in capital and should therefore be reclassified as common equity. In addition, the Utility did not reflect its negative retained earnings balance of \$117,850. Therefore, staff recommends a common equity balance of \$132,605, as shown below:

Table 7-1

Common Equity Balance per Company	\$176,616
Negative Retained Earnings	(117,850)
Shareholder Loans (\$67,936 + \$5,903)	<u>73,839</u>
Staff Adjusted Common Equity Balance	<u>\$132,605</u>

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, staff recommends a weighted average cost of capital of 6.09 percent. This represents a 2-basis points reduction from Tradewinds' requested overall cost of capital of 6.11 percent. Schedule No. 2-A details staff's recommended overall cost of capital. Adjustments to the capital structure are reflected on Schedule 2-B.

Issue 8: What are the appropriate annualized revenue adjustments?

Recommendation: Using the test year billing determinants, the appropriate annualized revenue adjustments are \$4,120 for water and \$9,121 for wastewater. Accordingly, revenues be decreased by \$4,120 for water and \$9,121 for wastewater. (Davis, Fletcher)

Staff Analysis: The Utility did not include annualized revenue adjustments for either its water or wastewater operations. Using the test year billing determinants, the appropriate annualized revenue adjustments are \$4,120 for water and \$9,121 for wastewater. Accordingly, staff recommends revenues be decreased by \$4,120 for water and \$9,121 for wastewater.

Issue 9: Should any adjustments be made to the Utility's requested pro forma expenses?

Recommendation: Yes. Due to the current economic climate, a 3-percent increase in salaries is more reasonable than the proposed increases of 8.6 percent for water and 4.3 percent for wastewater. Accordingly, the salaries should be reduced by \$2,302 for water and \$1,078 for wastewater. Further, based on a 3-year average balance, a representative amount of bad debt expense for ratemaking purposes is \$1,344 for water and \$783 for wastewater. This represents a decrease of \$2,184 for water and a decrease of \$3,255 for wastewater. (Davis, Fletcher)

Staff Analysis: In its filing, the Utility requested pro forma expense increases of \$3,526 for salaries, \$721 for healthcare costs, and \$2,062 for bad debt expense for its water operations. The requested pro forma expense increases for wastewater were \$3,526 for salaries, \$721 for healthcare, and \$3,412 for bad debt expense. Staff believes that healthcare costs have and will continue to increase each year and that the requested healthcare costs of \$721 for each division are immaterial in nature. Accordingly, staff believes the requested increases for healthcare costs are reasonable. However, staff believes adjustments are necessary for Tradewinds' pro forma salary and bad debt expense increases.

Pro Forma Salary Increase

The Utility's requested salary increase for water represents an increase of approximately 8.6 percent. The requested salary increase for wastewater represents an increase of approximately 4.3 percent. Staff believes that, in light of the economic climate in Florida and throughout the U.S., a 3-percent increase in salaries is more reasonable. Although a 3-percent increase exceeds the Commission's 2010 and 2011 Price Indices of 0.56 percent and 1.18 percent, the Commission has recently allowed salary increases for a water utility of 3-percent.⁴ Staff notes that this instant case is Tradewinds' first rate case. A 3-percent increase equates to an increase of \$1,224 for water and \$2,448 for wastewater salaries instead of the proposed \$3,526 for water and \$3,526 for wastewater. The result is a decrease of \$2,302 to the Utility request for water salaries (\$3,526 - \$1,224) and a decrease of \$1,078 for wastewater salaries (\$3,526 - \$2,448).

Pro Forma Bad Debt Expense

In its filing, Tradewinds reflected no bad debt expenses during the test year. However, it subsequently requested pro forma bad debt expense of \$3,528 for water and \$4,038 for wastewater. Staff believes that these levels of bad expense are overstated based on the historical bad debt expense experienced by the Utility. The Commission has set bad debt expense using the 3-year average in multiple electric,⁵ gas,⁶ and water and wastewater cases.⁷ The Commission

⁴ See Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc., pp. 20-21.

⁵ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, p. 48.

approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining the appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, Tradewinds should be entitled to bad debt expense of \$1,344 for water and \$783 for wastewater. As a result, staff recommends that Tradewinds' proposed bad debt expense levels be decreased by \$2,184 (\$3,528 - \$1,344) for water and \$3,255 (\$4,038 - \$783) for wastewater.

⁶ See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, pp. 30-31.

⁷ See Order Nos. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 30-31; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; pp. 23-24; and PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 18.

Issue 10: What is the appropriate treatment of the wastewater lawsuit settlement that occurred during the test year?

Recommendation: As reflected in the Utility's filing, the \$62,500 amount awarded to the petitioner has been appropriately removed from the test year expenses. The remaining costs associated with this litigation should be amortized over 5 years. Further, to recognize the expanded coverage in the Utility's general liability policy, the incremental increase in insurance premiums should be allowed. Accordingly, wastewater O&M expenses should be reduced by \$5,230. (Davis, Fletcher)

Staff Analysis: In its filing, Tradewinds removed \$62,500 from miscellaneous expenses related to a litigation settlement resulting from a sewage back-up in a customer's home. Staff agrees with the Utility's removal of those expenses. In addition to the \$62,500 mediated settlement amount, the Utility incurred \$5,578 in legal fees and \$1,205 in miscellaneous expenses associated with this litigation.

The Commission has previously allowed legal expenses incurred for defending fines from DEP, as these costs could serve to avoid or reduce fines, or eliminate or postpone large system improvements.⁸ Accordingly, staff recommends that the Commission allow the \$5,578 in legal fees and the \$1,205 in miscellaneous expense to be amortized over 5 years as non-recurring expenses. This results in an annual amortization of \$1,357 [(\$5,578 + \$1,205) divided by 5 years] and reduction to O&M expenses of \$5,426 (\$5,578 + \$1,205 - \$1,357).

Moreover, Tradewinds has increased its insurance premiums to cover any future problems like the events that gave rise to the mediated settlement mentioned above. Therefore, the increase in insurance premium of \$196 allocated to Tradewinds wastewater should be recognized as a prudent increase in O&M expenses to avoid much larger cash outlays for any possible lawsuit settlements.

Based on the above, as reflected in the Utility's filing, the \$62,500 amount awarded to the petitioner has been appropriately removed from the test year expenses. The remaining costs associated with this litigation should be amortized over 5 years. Further, to recognize the expanded coverage in the Utility's general liability policy, the incremental increase in insurance premiums should be allowed. Accordingly, wastewater O&M expenses should be reduced by \$5,230 (\$5,426 - \$196).

⁸ See Order Nos. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS, In re: Application for rate increase in Duval, Nassau, and St. Johns Counties by United Water Florida, Inc., pp. 71-72; and PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS, In re: Application for Rate Increase in Lee County by Lehigh Utilities, Inc., p. 21.

Issue 11: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$20,752. This expense should be recovered over four years for an annual expense of \$2,594 for water and \$2,594 for wastewater. Thus, Tradewinds' requested annual rate case expense should be reduced by \$31 for both operations. (Davis, Fletcher)

Staff Analysis: Tradewinds included rate case expense of \$21,000 in its MFRs. Staff requested an update of the actual rate case expenses incurred, with supporting documentation, as well as an estimate of the amount necessary to complete the case.

Pursuant to Section 367.08(7), F.S., "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable." Also, it is a utility's burden to justify its requested costs.⁹ Further, the Commission has broad discretion with respect to allowance of rate case expense. However, 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.¹⁰ As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed below for the current rate case. Based on our review, staff recommends a few adjustments be made.

Legal Fees

Tradewinds included \$6,000 in its MFR's for legal representation from Rutledge, Ecenia & Purnell (REP). The Utility submitted actual rate case expenses from REP of \$439 related to the application of Mr. Charles deMenzes to be the qualified representative for Tradewinds in this docket. The Utility also submitted actual expenses from Rose, Sundstrom & Bentley, LLP (RSB) of \$346 for the test year approval letter. Thus, staff recommends rate case expense related to legal services of \$785 (\$439 + \$346) be approved. This recommended level of legal expenses is consistent with the amount of legal expenses the Commission recently approved for Tradewinds' sister company, C.F.A.T. H2O, Inc., at the August 9, 2011, Commission Conference.

Consultant Fees

Tradewinds included \$15,000 in its filing for preparation of MFRs, data request responses, and audit facilitation from Tangibl LLC (Tangibl). Based on the Utility's agreement with Tangibl, Tradewinds paid Tangibl a total of \$12,500 for preparing the MFRs in this case. Staff recommends that the actual amount of \$12,500 be approved as prudent for the preparation of MFRs for this Utility. This recommended allowance is consistent with the amount of MFR preparation fees the Commission recently approved for Tradewinds' sister company, C.F.A.T. H2O, Inc., at the August 9, 2011, Commission Conference.

⁹ See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

¹⁰ See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 326 (Fla. 1st DCA 1987), rev. denied 529 So. 2d 694 (Fla. 1988).

Miscellaneous

At one time in this proceeding, the Utility retained RSB as its legal counsel. By letter dated August 27, 2011, RSB filed a Notice of Withdrawal of Counsel and stated that Tradewinds would be represented by Mr. deMenzes as a qualified representative.¹¹

In its filing, Tradewinds did not include any amount for Mr. deMenzes to process this case as a qualified representative. In response to a staff data request, the Utility requested \$7,200 for Mr. deMenzes time as a qualified representative. This was based on 180 hours (60 weeks at 3 hours per week) at an hourly rate of \$40 for a total of \$7,200. Staff believes the Utility's hourly rate of \$40 is appropriate because it is in line with Mr. deMenzes' total officer salary of \$83,200. When dividing \$83,200 by 2,080 typical work hours in a year, it yields an hourly rate of \$40.

The Utility did not provide a breakdown for each task performed and their associated hours as requested in staff's data request. However, staff has first hand knowledge that Mr. deMenzes has assisted staff auditors, attended the interim commission conference, attended the customer meeting, and responded to numerous staff data requests. Because Mr. deMenzes substituted himself for previous legal counsel, as a qualified representative, staff looked at four recent rate cases that were processed by RSB in order to analyze the reasonableness of the 180 hours requested by the Utility. Based on our calculations of those four rate cases, the actual average hours were approximately 122 hours per case. Due to the lack of detail for its requested costs, staff recommends recovery of 122 hours at an hourly rate of \$40. This equated to \$4,880 (122 hours at \$40) resulting in a reduction of \$2,320 (\$7,200 - \$4,880) to the Utility's request.

In addition, staff believes it is appropriate to allow noticing costs and filing fees. There will be a total of three notices through the Proposed Agency Action (PAA) portion of this rate case, assuming no protest. Given the number of customers and the total number of pages for these notices, staff believes \$1,087 is a reasonable amount for the noticing requirements for this case. Therefore, staff recommends miscellaneous rate case expenses of \$5,967 (\$4,880 + \$1,087). This recommended allowance is consistent with the Commission's recent approval, at the August 9, 2011, Commission Conference, for Tradewinds sister company, C.F.A.T. H2O, Inc. Separately, the Utility also paid a rate case filing fee of \$1,500.

Conclusion

In summary, staff recommends total rate case expense of \$20,752. A breakdown of rate case expense follows:

¹¹ See Order No. PSC-10-0520-FOF-OT, issued August 16, 2010, in Docket No. 100008-OT, In re: Applications for qualified representative status. By this order, Mr. deMenzes was authorized to appear as qualified representative for C.F.A.T. H2O, Inc. in Docket No. 100126-WU and Tradewinds Utilities, Inc. in Docket No. 100127-WS.

Table 11-1

	<u>MFR B-10 Estimate</u>	<u>Actual & Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$6,000	\$785	\$0	\$785
Tangibl LLC	15,000	12,500	(2,500)	12,500
PSC Filing Fee	0	1,500	0	1,500
Miscellaneous	0	7,200	(1,233)	5,967
Total Rate Case Expense	<u>\$21,000</u>	<u>\$21,985</u>	<u>(\$3,733)</u>	<u>\$20,752</u>

In its MFRs, the Utility requested total rate case expense of \$21,000. When amortized over four years, this represents an annual expense of \$5,250. This amount was comprised of \$2,625 for water and \$2,625 for wastewater. The recommended annual rate case expense of \$5,188 ($\$20,752/4$) should be recovered over four years, pursuant to Section 367.0816, F.S. Therefore, annual rate case expense should be decreased by \$31 ($(\$5,250 - \$5,188)/2$) for water and \$31 for wastewater.

Issue 12: What is the test year operating loss before any revenue increase?

Recommendation: Based on the adjustments discussed in other issues, the test year operating loss is \$31,527 for water and a positive net income of \$6,563 for wastewater before any revenue increases. (Davis, Fletcher)

Staff Analysis: This is primarily a “fall-out” issue subject to the resolution of other issues related to revenue, operating expenses, and rate base. As shown on Schedules No. 3-A and 3-B, after applying staff’s adjustments, the Utility’s net operating loss is \$31,527 for water and a positive net income of \$6,563 for wastewater. Staff’s adjustments to operating income are shown on Schedule No. 3-C.

Issue 13: What are the appropriate revenue requirements?

Recommendation: The following revenue requirements should be approved:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase/ Decrease</u>	<u>Revenue Requirement</u>	<u>% Change</u>
Water	\$119,414	\$68,666	\$188,080	57.50
Wastewater	\$195,267	\$4,013	\$199,280	2.06

(Davis, Fletcher)

Staff Analysis: The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a “fall-out” number. The computation of the revenue requirement is shown on Schedule No. 3-A for water and Schedule No. 3-B for wastewater. This results in a revenue requirement of \$188,080 for water which represents an increase of \$68,666 or 57.50 percent. The resulting revenue requirement of \$199,280 for wastewater represents an increase of \$4,013 or 2.06 percent.

Issue 14: What is the appropriate water rate structure?

Recommendation: The appropriate water rate structure for the residential class is a three-tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgals in the first usage block and all usage in excess of 10 kgals in the second usage block. As discussed in Issue 16, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage at or below 5 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5 kgals; b) 5.001-10 kgals; and c) all usage in excess of 10 kgals and usage block rate factors of 0.67, 1.0, and 1.25, respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 36.75 percent. (Lingo)

Staff Analysis: The Utility's current water system rate structure for both the residential and general service classes is the monthly base facility charge (BFC) and uniform gallonage charge rate structure. The BFC prior to filing for a 5/8" x 3/4" meter was \$9.21, with a gallonage charge rate of \$1.52 for all kgals used. Tradewinds is located in Marion County within the St. Johns River Water Management District (SJRWMD or District). The Utility's Consumptive Use Permit (CUP) No. 2995-4 expired on December 2, 2007. The Utility has received multiple extensions of time to complete the requirements for obtaining its CUP renewal. At this point, the District prefers to issue a "short term" CUP with the requirement that the Utility complete any outstanding requirements for renewal of its expired CUP. District staff intends to present a technical staff report to this effect to the District's Governing Board at its September 13, 2011 regulatory meeting.

Staff performed a detailed analysis of the Utility's water billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

Based on staff's analysis of the residential billing data, the overall average consumption is 5.3 kgals per month, and the appropriate threshold for a customer's discretionary usage is 5.0 kgals per month. (This figure is derived based on the average number of persons per household, gallons used per day per person, and the number of days per month ($3 \times 50 \times 30 = 4.5$ kgals, rounded up to 5 kgals). This does not indicate high overall average consumption. However, the billing data indicates that at monthly consumption greater than 10 kgals, there are 10 percent of residential customers who account for 20 percent of all residential kgals billed. Furthermore, based on the rates in effect during the test year, the Utility collected approximately 55 percent of its revenues from the BFC. This is well outside the guideline of the five WMDs that the BFC recover no more than 40 percent of the Utility's revenues. For these reasons, staff recommends that a three-tier inclining block rate structure be implemented, with the BFC set to recover 36.75 percent of the Utility's annual revenues. This will place virtually all of the revenue requirement increase into the kgal charge.

Staff's recommended BFC cost recovery will enable customers at nondiscretionary levels of consumption to pay a lower price for their water consumption while targeting customers who use a greater volume of water. In addition, the usage blocks should be set at 0-5 kgals; 5.001-10 kgals; and usage in excess of 10 kgals. This rate structure has the effect of: 1) complying with WMD guidelines regarding BFC cost recovery; 2) restricting repression being applied to non-discretionary usage below 5 kgals in the first block; 3) targeting greater-than-average consumption in the second block; and 4) sending the strongest conservation signals to those customers whose consumption exceeds 10 kgals per month in the third block. Staff recommends that the rate structure for water system's non-residential class remain unchanged. This rate structure has been the Commission's choice for non-residential customer classes.¹²

Staff's recommended rate design for the water system's residential customers is shown on the following page on Table 14-1. Also, staff has presented two alternate rate structures to illustrate other cost recovery methodologies.

¹² See Order Nos. PSC-08-0812-PAA-WS, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.; and PSC-09-0647-PAA-WS, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

Table 14-1

TRADEWINDS UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES FOR RESIDENTIAL SERVICE					
Rate Structure and Rates Prior to Filing			Recommended Rate Structure and Rates		
BFC/uniform gallonage charge rate structure BFC = 55.4 percent			3-Tier Inclining Block Rate Structure Rate Factors 0.67, 1.00 and 1.25 BFC = 36.75 percent		
BFC		\$9.21	BFC		\$9.23
Gallonage Charge (all kgals)		\$1.52	1 st tier (no repr)	0-5 kgals	\$3.11
			2 nd tier (discretionary)	5.001-10 kgals	\$4.66
			3 rd tier (discretionary)	10+ kgals	\$5.83
Typical Monthly Bills (1)			Typical Monthly Bills		
Cons (kgals)			Cons (kgals)		
0		\$9.21	0		\$9.23
1		\$10.73	1		\$12.34
3		\$13.77	3		\$18.56
5		\$16.81	5		\$24.78
10		\$24.41	10		\$48.10
20		\$39.61	20		\$106.40
30		\$54.81	30		\$164.69
Alternative 1			Alternative 2		
3-Tier Inclining Block Rate Structure Rate Factors 0.62, 1.0 and 1.25 BFC = 30 percent			3-Tier Inclining Block Rate Structure Rate Factors 0.69, 1.00 and 1.25 BFC = 40 percent		
BFC		\$7.52	BFC		\$10.05
1 st tier (no repr)	0-5 kgals	\$3.44	1 st tier (no repr)	0-5 kgals	\$2.95
2 nd tier (discretionary)	5.001-10 kgals	\$5.57	2 nd tier (discretionary)	5.001-10 kgals	\$4.28
3 rd tier (discretionary)	10+ kgals	\$6.96	3 rd tier (discretionary)	10+ kgals	\$5.35
Typical Monthly Bills			Typical Monthly Bills		
Cons (kgals)			Cons (kgals)		
0		\$7.52	0		\$10.05
1		\$10.97	1		\$13.00
3		\$17.85	3		\$18.90
5		\$24.74	5		\$24.81
10		\$52.57	10		\$46.19
20		\$122.15	20		\$99.66
30		\$191.73	30		\$153.12

Based on the foregoing, the appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgals in the first usage block and all usage in excess of 10 kgals in the second usage block. As discussed in Issue 16, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5 kgals; b) 5.001-10 kgals; and c) all usage in excess of 10 kgals and usage block rate factors of 0.67, 1.0, and 1.25 respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 36.75 percent.

Issue 15: What is the appropriate wastewater rate structure?

Recommendation: The appropriate rate structure for the wastewater system is a continuation of the BFC/gallage charge rate structure. The residential BFC should be equal to the rate charged for a 5/8" x 3/4" meter. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. Residential billed consumption should be capped at 10 kgals per month, and the general service wastewater gallage charge should be set at 1.2 times the corresponding residential gallage charge. (Lingo)

Staff Analysis: The current wastewater system rate structure for both the residential and general service classes is the BFC/gallage charge rate structure. The monthly BFC prior to filing (regardless of meter size) for the residential customers was \$18.82. The residential gallage charge prior to filing was \$5.79 per kgal, with a monthly cap on billed usage of 10 kgals. The general service monthly BFC prior to filing for a 5/8" x 3/4" meter was \$20.61. The general service gallage charge prior to filing was \$6.97 for all kgals used.

There are two areas of inconsistency in Tradewinds' wastewater rate design compared to Commission practice. First, Tradewinds' residential customers' BFC is not equal to the general service BFC for a 5/8" x 3/4" meter. All residential customers' BFC should be billed at the rate for a 5/8" x 3/4" meter. Second, the BFC cost recovery for the wastewater system is 45 percent. This BFC cost recovery is inconsistent with the Commission's practice of setting the BFC such that it recovers at least 50 percent of the wastewater system's revenues. This is done in order to recognize the capital intensive nature of wastewater plants. Therefore, staff believes it is appropriate to design wastewater rates to correct these inconsistencies.

The Utility's current wastewater monthly gallage cap is set at 10 kgals. It is Commission practice to set the residential wastewater gallage cap at a consumption level equal to at least 80 percent of the total number of residential gallons sold.¹³ Staff's review of the wastewater billing data indicates that greater than 80 percent of the residential gallons are captured at 10 kgals. Therefore, staff recommends that the Utility's wastewater cap remain unchanged. Staff recommends that the general service gallage charge remain at 1.2 times greater than the residential charge.

Therefore, the appropriate rate structure for the wastewater system is a continuation of the BFC/gallage charge rate structure. The residential BFC should be equal to the rate charged for a 5/8" x 3/4" meter. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. Residential billed consumption should be capped at 10 kgals per month, and the general service wastewater gallage charge should be set at 1.2 times the corresponding residential gallage charge.

¹³ See Order Nos. 12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida.; and PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Issue 16: What are the appropriate repression adjustments?

Recommendation: The appropriate repression adjustments result in a reduction of test year residential water kgals sold by 15.6 percent, yielding consumption reduction of 4,440 kgals. Purchased power expense should be reduced by \$1,326, chemicals expense should be reduced by \$153, and regulatory assessment fees (RAFs) should be reduced by \$70. The final post-repression revenue requirement for the water system should be \$182,175. For the wastewater system, test year kgals sold should be reduced by 9.2 percent, resulting in a consumption reduction of 1,592 kgals. Sludge removal expense should be reduced by \$748, purchased power expense should be reduced by \$2,164, chemicals expense should be reduced by \$552, and RAFs should be reduced by \$156. The final post-repression revenue requirement for the wastewater system should be \$195,661.

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

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the overall average consumption is 5.3 kgals per month. This does not indicate a high overall average level of consumption. However, the billing data indicates that the 10 percent of customers with the greatest consumption account for the remaining 20 percent of all kgals billed. Furthermore, staff recommended in Issue 14 that the threshold for residential customers' essential usage be 5 kgals per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 5 kgals per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.¹⁴ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption equal to or

¹⁴ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; and PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

less than 5 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption greater than 5 kgals per month).

Therefore, the appropriate repression adjustment results in a reduction of test year residential water kgals sold by 15.6 percent, yielding consumption reduction of 4,440 kgals. Purchased power expense should be reduced by \$1,326, chemicals expense should be reduced by \$153, and regulatory assessment fees (RAFs) should be reduced by \$70. The final post-repression revenue requirement for the water system should be \$182,175. For the wastewater system, test year kgals sold should be reduced by 9.2 percent, resulting in a consumption reduction of 1,592 kgals. Sludge removal expense should be reduced by \$748, purchased power expense should be reduced by \$2,164, chemicals expense should be reduced by \$552, and RAFs should be reduced by \$156. The final post-repression revenue requirement for the wastewater system should be \$195,661.

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

Issue 17: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. Excluding miscellaneous service charges, the recommended rates should be designed to produce revenues of \$182,175 for the water system and \$195,661 for the wastewater system. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Davis)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenues of \$182,175 for the water system and \$195,661 for the wastewater system.

As discussed in Issue 14, staff recommends implementing a three-tier inclining block rate structure for the water system's residential class. As discussed in Issue 16, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage at or below 5 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5 kgals; b) 5.001-10 kgals; and c) all usage in excess of 10 kgals, with usage block rate factors of 0.67, 1.0, and 1.25 respectively. As discussed in Issue 15, the appropriate rate structure for the wastewater system is a continuation of the BFC/gallage charge rate structure. The residential BFC should be equal to the rate charged for a 5/8" x 3/4" meter. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. Residential billed consumption should be capped at 10 kgals per month, and the general service wastewater gallage charge should be set at 1.2 times the corresponding residential gallage charge. As discussed in Issue 16, the final post-repression revenue requirements should be \$182,175 for the water system and \$195,661 for the wastewater system.

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

Issue 18: Should the Utility be authorized to revise its miscellaneous service charges, and , if so, what are the appropriate charges?

Recommendation: Yes. Tradewinds should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. The Utility should provide proof the customers have received notice within ten days after the date that the notice was sent. The appropriate charges are reflected below. This notice may be combined with the notice required in other issues.

Miscellaneous Service Charges

	<u>Water</u>		<u>Wastewater</u>	
	<u>Bus. Hrs</u>	<u>After Hrs.</u>	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	\$32	\$21	\$32
Normal Reconnection	\$21	\$32	\$21	\$32
Violation Reconnection	\$21	\$32	Actual Cost	
Premises Visit	\$14	N/A	\$14	N/A

(Thompson)

Staff Analysis: The Utility believes that its miscellaneous service charges should be updated to reflect current costs. Staff agrees with this request. As a follow up to staff's discovery, Tradewinds provided the cost estimates for the expenses associated with initial connection, normal reconnection, violation reconnection, and premises visit fees during business hours and after hours. These cost justifications included \$16 for transportation expense for each service, \$30 per hour clerk labor (\$45 after hours), and \$8 of overhead for each service. The after hours charges are based on a factor of 1.5 times the business hours charges rounded down to the nearest whole dollar to reflect the cost of overtime associated with after hours services. The cost justifications ranged between \$56 and \$71. While staff believes the cost justifications are excessive, the proposed charges shown in Tradewinds' MFRs are reasonable and comparable to fees the Commission has approved for other utilities.¹⁵ Below is a depiction of the current and proposed amounts for the miscellaneous charges.

¹⁵ See Order Nos. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc.; and PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

Table 18-1

<u>Water Miscellaneous Service Charges</u>				
	<u>Current Charges</u>		<u>Proposed Charges</u>	
	<u>Bus. Hrs</u>	<u>After Hrs</u>	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$32
Normal Reconnect	\$15	N/A	\$21	\$32
Violation Reconnect	\$15	N/A	\$21	\$32
Premises Visit	\$10	N/A	\$14	N/A

Table 18-2

<u>Wastewater Miscellaneous Service Charges</u>				
	<u>Current Charges</u>		<u>Proposed Charges</u>	
	<u>Bus. Hrs</u>	<u>After Hrs</u>	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$32
Normal Reconnect	\$15	N/A	\$21	\$32
Violation Reconnect	Actual Cost	N/A	Actual Cost	
Premises Visit	\$10	N/A	\$14	N/A

Therefore, staff recommends that Tradewinds be allowed to implement initial connection fee for work performed during business hours of \$21 and after business hours of \$32 and normal reconnection fees for work performed during business hours of \$21 and after business hours of \$32. Also, Tradewinds should be allowed to implement a violation reconnection fee for the actual cost incurred and premises visit fee for work performed during business hours of \$14. Tradewinds should be allowed to implement the requested charges because the increased charges are reasonable and comparable to charges approved in prior Commission decisions.¹⁶ The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. Tradewinds should provide proof the customers have received notice within ten days after the date the notice was sent. Below is a breakdown of the Utility's current and staff recommended miscellaneous service charges:

Table 18-3

	<u>Water</u>		<u>Wastewater</u>	
	<u>Bus. Hrs</u>	<u>After Hrs.</u>	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	\$32	\$21	\$32
Normal Reconnection	\$21	\$32	\$21	\$32
Violation Reconnection	\$21	\$32	Actual Cost	
Premises Visit	\$14	N/A	\$14	N/A

¹⁶ Id.

Issue 19: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amounts should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. These revised revenue requirements for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on these calculations, the Utility should be required to refund 7.01 percent of water revenues collected under interim rates and 14.39 percent of wastewater revenues collected under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made. (Davis)

Staff Analysis: By Order No. PSC-10-0731-PCO-WS, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$199,011 for water and \$229,595 for wastewater. This represented a revenue increase of \$75,669, or 61.35 percent for water and a revenue increase of \$20,716 or 9.92 percent for wastewater.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2009. Tradewinds' 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 of return on equity.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the \$199,011 water revenue requirement and the \$229,595 wastewater revenue requirement granted in Order No. PSC-10-0731-PCO-WS for the interim test year are greater than the revenue requirements for the interim collection period of \$185,364 for water and \$196,564 for wastewater. This results in a 7.01 percent refund of interim water rates, after miscellaneous revenues have been removed and a 14.39 percent refund of interim wastewater rates. The Utility should be required to refund 7.01 percent of water and 14.39 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any

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unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made.

Issue 20: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove rate case expense of \$2,737 for water and \$2,737 for wastewater, grossed-up for RAFs. 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 tariff sheets 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 should 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. The rates should not be implemented until staff has approved the proposed customer notice. Tradewinds should provide proof of the date notice was given within 10 days of the date of the notice. (Davis)

Staff Analysis: 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 revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$2,737 for water and \$2,737 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

The Utility should be required to 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Tradewinds should provide proof of the date notice was given within 10 days of the date of the notice.

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

Issue 21: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Tradewinds should 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. (Davis)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Tradewinds should 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.

Issue 22: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open for staff's verification that the appropriate refunds have been made and the revised tariff sheets and customer notices have been filed by the Utility and approved by staff. Upon these actions being completed, the escrow account should be released, and the docket closed administratively. (Jaeger)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open for staff's verification that the appropriate refunds have been made and the revised tariff sheets and customer notices have been filed by the Utility and approved by staff. Upon these actions being completed, the escrow account should be released, and the docket closed administratively.

Tradewinds Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09			Schedule No. 1-A Docket No. 100127-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,075,251	\$0	\$1,075,251	(\$52,582)	\$1,022,669
2 Land and Land Rights	182,500	0	182,500	(112,500)	70,000
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(483,494)	0	(483,494)	57,073	(426,421)
5 CIAC	(328,985)	0	(328,985)	(12,535)	(341,520)
6 Amortization of CIAC	246,641	0	246,641	(27,144)	219,497
7 Working Capital Allowance	<u>0</u>	<u>15,678</u>	<u>15,678</u>	<u>(596)</u>	<u>15,082</u>
8 Rate Base	<u>\$691,913</u>	<u>\$15,678</u>	<u>\$707,591</u>	<u>(\$148,284)</u>	<u>\$559,307</u>

Tradewinds Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/09			Schedule No. 1-B Docket No. 100127-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$949,207	\$0	\$949,207	(\$15,776)	\$933,431	
2 Land and Land Rights	93,388	0	93,388	(24,717)	68,671	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(698,111)	0	(698,111)	14,617	(683,494)	
5 CIAC	(531,404)	0	(531,404)	(12,669)	(544,073)	
6 Amortization of CIAC	405,694	0	405,694	(31,744)	373,950	
7 Working Capital Allowance	<u>0</u>	<u>23,481</u>	<u>23,481</u>	<u>(1,200)</u>	<u>22,281</u>	
8 Rate Base	<u>\$218,774</u>	<u>\$23,481</u>	<u>\$242,255</u>	<u>(\$71,489)</u>	<u>\$170,766</u>	

Tradewinds Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/09		Schedule No. 1-C Docket No. 100127-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$52,582)	(\$15,776)	
<u>Land</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$112,500)	(\$24,717)	
<u>Accumulated Depreciation</u>			
Agreed upon Audit Adjustments. (Issue 2)	\$57,073	\$14,617	
<u>CIAC</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$12,535)	(\$12,669)	
<u>Accumulated Amortization of CIAC</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$27,144)	(\$31,744)	
<u>Working Capital</u>			
	(\$596)	(\$1,200)	

Tradewinds Utilities, Inc. Capital Structure Test Year Ended 12/31/09						Schedule No. 2-A Docket No. 100127-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$856,725	\$0	\$856,725	(\$84,574)	\$772,151	81.29%	5.13%	4.17%	
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	176,616	0	176,616	(17,435)	159,181	16.76%	10.85%	1.82%	
5 Customer Deposits	20,544	0	20,544	(2,028)	18,516	1.95%	6.00%	0.12%	
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Total Capital	<u>\$1,053,885</u>	<u>\$0</u>	<u>\$1,053,885</u>	<u>(\$104,037)</u>	<u>\$949,848</u>	<u>100.00%</u>		<u>6.11%</u>	
Per Staff									
8 Long-term Debt	\$856,725	(\$74,507)	\$782,218	(\$171,681)	\$610,537	83.63%	5.23%	4.37%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	176,616	(44,011)	132,605	(29,104)	103,501	14.18%	11.16%	1.58%	
12 Customer Deposits	20,544	0	20,544	(4,509)	16,035	2.20%	6.00%	0.13%	
13 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
14 Total Capital	<u>\$1,053,885</u>	<u>(\$118,518)</u>	<u>\$935,367</u>	<u>(\$205,294)</u>	<u>\$730,073</u>	<u>100.00%</u>		<u>6.09%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>5.95%</u>	<u>6.23%</u>		

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Tradewinds Utilities, Inc.		Schedule No. 2-B	
Adjustments to Capital Structure		Docket No. 100127-WS	
Test Year Ended 12/31/09			
Description	Beginning Balance	Adjustments	Ending Balance
1 Long-term Debt	\$856,725		
2 Adjustment to Correct Loan Balance		(668)	
3 Adjustment to remove Shareholder Loan 1		(67,936)	
4 Adjustment to remove Shareholder Loan 2		(5,903)	
5 Total Adjustments to Long-term Debt		<u>(\$74,507)</u>	
6 Adjusted Long-term Debt			<u>\$782,218</u>
1 Common Equity	\$176,616		
2 Reflect Retained Earnings		(117,850)	
3 Include Shareholder Loan 1		67,936	
4 Include Shareholder Loan 2		5,903	
5 Total Adjustments to Common Equity		<u>(\$44,011)</u>	
6 Adjusted Common Equity			<u>\$132,605</u>

Tradewinds Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/09						Schedule No. 3-A Docket No. 100127-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$123,534</u>	<u>\$83,750</u>	<u>\$207,284</u>	<u>(\$87,870)</u>	<u>\$119,414</u>	<u>\$68,666</u> 57.50%	<u>\$188,080</u>
Operating Expenses							
2 Operation & Maintenance	\$115,021	\$10,400	\$125,421	(\$4,767)	\$120,654		\$120,654
3 Depreciation	26,857	0	26,857	(3,854)	23,003		23,003
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	8,006	3,769	11,775	(4,490)	7,285	3,090	10,375
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>149,884</u>	<u>14,169</u>	<u>164,053</u>	<u>(13,111)</u>	<u>150,942</u>	<u>3,090</u>	<u>154,032</u>
8 Operating Income	<u>(\$26,350)</u>	<u>\$69,581</u>	<u>\$43,231</u>	<u>(\$74,758)</u>	<u>(\$31,527)</u>	<u>\$65,576</u>	<u>\$34,048</u>
9 Rate Base	<u>\$691,913</u>		<u>\$707,591</u>		<u>\$559,307</u>		<u>\$559,307</u>
10 Rate of Return	<u>-3.81%</u>		<u>6.11%</u>		<u>-5.64%</u>		<u>6.09%</u>

Tradewinds Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/09						Schedule No. 3-B Docket No. 100127-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$204,388</u>	<u>\$35,750</u>	<u>\$240,138</u>	<u>(\$44,871)</u>	<u>\$195,267</u>	<u>\$4,013</u> 2.06%	<u>\$199,280</u>
Operating Expenses							
2 Operation & Maintenance	\$239,436	(\$51,590)	\$187,846	(\$9,594)	\$178,252		\$178,252
3 Depreciation	11,143	0	11,143	(10,742)	401		401
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	24,748	1,609	26,357	(16,306)	10,051	181	10,231
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>275,327</u>	<u>(49,981)</u>	<u>225,346</u>	<u>(36,642)</u>	<u>188,704</u>	<u>181</u>	<u>188,884</u>
8 Operating Income	<u>(\$70,939)</u>	<u>(\$14,231)</u>	<u>\$14,792</u>	<u>(\$8,229)</u>	<u>\$6,563</u>	<u>\$3,833</u>	<u>\$10,396</u>
9 Rate Base	<u>\$218,774</u>		<u>\$242,255</u>		<u>\$170,766</u>		<u>\$170,766</u>
10 Rate of Return	<u>-32.43%</u>		<u>6.11%</u>		<u>3.84%</u>		<u>6.09%</u>

Tradewinds Utilities, Inc.		Schedule No. 3-C	
Adjustments to Operating Income		Docket No. 100127-WS	
Test Year Ended 12/31/09			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$83,750)	(\$35,750)	
2 Appropriate Annualized Revenues.	(4,120)	(9,121)	
Total	<u>(\$87,870)</u>	<u>(\$44,871)</u>	
<u>Operation and Maintenance Expense</u>			
1 Agreed upon Audit Adjustments. (Issue 2)	(\$250)	\$0	
2 Reflect appropriate Pro Forma Salary. (Issue 9)	(2,302)	(1,078)	
3 Reflect appropriate Pro Forma Bad Debt Expense. (Issue 9)	(2,184)	(3,255)	
4 Adjust expenses related to law suit/insurance (Issue 10)	0	(5,230)	
5 Reflect the appropriate rate case expense. (Issue 11)	(31)	(31)	
Total	<u>(\$4,767)</u>	<u>(\$9,594)</u>	
<u>Depreciation Expense - Net</u>			
1 Agreed upon Audit Adjustments. (Issue 2) Depr.Exp.	(\$5,478)	(\$6,431)	
2 Agreed upon Audit Adjustments. (Issue 2) Amort. Exp.	1,624	(4,311)	
Total	<u>(\$3,854)</u>	<u>(\$10,742)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$3,954)	(\$2,019)	
2 Agreed upon Audit Adjustments. (Issue 2)	(536)	(14,287)	
Total	<u>(\$4,490)</u>	<u>(\$16,306)</u>	

Tradewinds Utilities, Inc.		Schedule No. 4-A				
Water Monthly Service Rates		Docket No. 100127-WS				
Test Year Ended 12/31/09		Rates	Commission	Utility	Staff	4-Year
		Prior to	Approved	Requested	Recomm.	Rate
		Filing	Interim	Final	Final	Reduction
<u>Residential, General Service and Multi-Residential</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$9.39	\$15.30	\$15.52	\$9.23	\$0.13	
1"	\$23.45	\$38.21	\$38.74	\$23.08	\$0.34	
1-1/2"	\$46.93	\$76.46	\$77.53	\$46.15	\$0.67	
2"	\$75.02	\$122.23	\$123.94	\$73.84	\$1.07	
3"	\$150.08	\$244.52	\$247.95	\$147.68	\$2.15	
4"	\$234.58	\$382.19	\$387.55	\$230.75	\$3.36	
6"	n/a	n/a	n/a	\$461.50	\$6.72	
8"	n/a	n/a	n/a	\$830.70	\$12.09	
Gallonge Charge, per Kgal	\$1.55	\$2.53	\$2.57			
Residential Gallonge Charges						
0-5 kgal				\$3.11	\$0.05	
5-10 kgal				\$4.66	\$0.07	
in excess of 10 kgal				\$5.83	\$0.08	
GS/MS Gallonge Charge				\$3.71	\$0.05	
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$14.04	\$22.89	\$23.23	\$18.56		
5,000 Gallons	\$17.14	\$27.95	\$28.37	\$24.78		
10,000 Gallons	\$24.89	\$40.60	\$41.22	\$48.08		

Tradewinds Utilities, Inc.			Schedule No. 4-B		
Wastewater Monthly Service Rates			Docket No. 100127-WS		
Test Year Ended 12/31/09					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Size	\$19.16	\$21.06	\$22.15	\$21.64	\$0.30
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$5.90	\$6.49	\$6.85	\$5.77	\$0.08
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$20.98	\$23.06	\$24.23	\$21.64	\$0.30
1"	\$52.51	\$57.72	\$60.64	\$54.10	\$0.74
1-1/2"	\$104.95	\$115.36	\$121.20	\$108.20	\$1.49
2"	\$167.92	\$184.57	\$193.92	\$173.12	\$2.38
3"	\$335.84	\$369.15	\$387.83	\$346.24	\$4.76
4"	\$524.76	\$576.80	\$606.00	\$541.00	\$7.43
6"	\$1,049.63	\$1,153.73	\$0.00	\$1,082.00	\$14.86
8"	n/a	n/a	n/a	\$1,947.60	\$26.75
Gallage Charge, per Kgal	\$7.09	\$7.79	\$0.00	\$6.92	\$0.10
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$36.86	\$40.53	\$42.70	\$38.95	
5,000 Gallons	\$48.66	\$53.51	\$56.40	\$50.49	
10,000 Gallons	\$78.16	\$85.96	\$90.65	\$79.34	
(Wastewater Gallage Cap - 10,000 Gallons)					