

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and  
wastewater rates in Marion, Orange, Pasco,  
Pinellas, and Seminole Counties by Utilities,  
Inc. of Florida.

DOCKET NO. 120209-WS  
ORDER NO. PSC-14-0025-PAA-WS  
ISSUED: January 10, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
LISA POLAK EDGAR  
RONALD A. BRISÉ  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING UTILITIES, INC. OF FLORIDA  
APPLICATION FOR RATE INCREASE  
AND  
FINAL ORDER FINDING A PARTIAL INTERIM REFUND IS REQUIRED,  
APPROVING FOUR-YEAR RATE REDUCTION AND REQUIRING AN ADJUSTMENT  
TO BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the actions finding a partial interim refund is required, approving a four-year rate reduction and the requirement to adjust books, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

**I. Background**

Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to twenty systems in the following counties: Marion, Orange, Pasco, Pinellas, and Seminole (See Attachment A). Of the twenty systems, eighteen are a part of this proceeding. UIF is a wholly-owned subsidiary of Utilities, Inc. (UI). The Utility's last rate case was in 2009.<sup>1</sup>

<sup>1</sup> See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

By letter dated July 31, 2012, UIF requested test year approval in order to file an application for general rate relief for 4 of its counties. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates.

UIF's requested test year for final and interim purposes is the historical year ended December 31, 2011. On March 29, 2013, the Utility filed minimum filing requirements (MFRs) to justify its requested rate increase. By letter dated April 26, 2013, UIF was notified that the MFRs were deficient. UIF corrected the deficiencies through information submitted on May 29, 2013. UIF did not request rate relief for its Marion County water and wastewater systems. However, to ensure that there was no cross-subsidization between the systems and that Marion County was not earning above its last authorized rate of return, we expanded its review, to include Marion County. Based on Commission staff's review, Marion County does not appear to be overearning and therefore, due to the Utility's request, will not be part of this case.

On June 25, 2013, we approved interim rates<sup>2</sup> designed to generate the following water and wastewater revenues:

<u>County</u>	<u>Water Revenue Increase</u>	<u>% Increase</u>	<u>Wastewater Revenue Increase</u>	<u>% Increase</u>
Orange	\$17,111	14.77%	N/A	N/A
Pasco <sup>3</sup>	\$46,325	5.13%	N/A	N/A
Pinellas <sup>4</sup>	\$0	0.00%	N/A	N/A
Seminole	\$42,687	4.88%	\$23,389	2.90%

The Utility requested final rates designed to generate total annual water revenues of \$2,735,513, an increase of \$736,881 or 36.87 percent, and total annual wastewater revenues of \$1,601,009, an increase of \$258,703 or 19.27 percent.

Customer meetings were held August 7 and 8, 2013, in New Port Richey and Altamonte Springs, respectively. 83 customers of the Summertree water system attended the New Port Richey meeting and 20 of them spoke. Four customers attended the meeting in Altamonte Springs.

On October 28, 2013, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on October 30, 2013.<sup>5</sup> Prior to the Notice of Intervention, OPC submitted a letter and a CD dated October 25, 2013, composed of customer complaints and protests from the Utility's Summertree customers. An analysis of the contents of the CD consisted of 3,400 pages comprised primarily of six different

<sup>2</sup> See Order No. PSC-13-0332-PCO-WS, issued July 22, 2013.

<sup>3</sup> UIF did not request interim rates for Pasco County wastewater, but is asking for a final revenue increase.

<sup>4</sup> The calculated a revenue decrease of \$1,922, or 1.83 percent, for Pinellas County water was based on its maximum authorized ROE. However, since Pinellas County water was currently operating within its authorized range, no interim revenue decrease was granted by this Commission.

<sup>5</sup> See Order No. PSC-13-0549-PCO-WS, issued October 30, 2013.

complaint forms filled out by residents of Summertree. Each of the six complaint forms addressed a different facet of water rates or water quality. Many of the residents signed more than one form, and multiple residents often represent a single household. Commission staff analyzed every complaint form prior to the Agenda Conference and determined that the 3,326 complaint forms represented complaints from an estimated 600-700 customers. Most of the complaints described poor quality water which was discolored, odorous and distasteful. The customer complaints also conveyed a clear displeasure and opposition to both the Utility's current and proposed rates. The customers also presented, through OPC, a separate petition signed by 544 customers asking for Commission assistance in improving the water quality and opposing the proposed rate increase.

This matter was brought before us at an Agenda Conference on November 14, 2013. At that time, a substantial number of Summertree customers attended the event with 24 Summertree customers speaking against the proposed rate increase for the Summertree water system on the grounds of poor water quality and service by the Utility. Four elected officials who represent the resident constituents of Summertree also spoke on behalf of, and in support of, the customers in opposing the rate increase.

The original five-month statutory deadline for this Commission to address the Utility's requested final rates was October 29, 2013. However, by letter dated June 19, 2013, UIF waived the statutory time frame by which this Commission is required to address the Utility's final requested rates through November 14, 2013.<sup>6</sup>

We voted on this matter at our November 14, 2013 Agenda Conference. However, as a result of concerns raised by OPC at the Agenda Conference, Commission audit staff conducted further analytical review of UIF's roll-forward adjustments and found errors which required immediate correction. Roll-forward adjustments are Utility adjustments in the MFRs that reflect Commission-ordered adjustments directing the Utility to adjust its books and records to reflect recent Commission ordered rate changes. The Utility does not make these adjustments directly to its books and records, but keeps them separate from the parent company's books and records. The roll-forward adjustments were reviewed by Commission audit staff and recalculated repeatedly for each rate case. This resulted in Commission staff and the Utility recalculating Accumulated Depreciation and Accumulated Amortization of Contributions-In-Aid-of-Construction (CIAC) as well as review any retirements every time the Utility files for a rate case. In each subsequent rate case, reviewing this information becomes more and more voluminous and time consuming. Commission staff subsequently filed a recommendation for our January 7, 2014 Agenda Conference that identified corrections that needed to be made to the rates due to the errors in the roll-forward adjustments. We delayed issuing a PAA order codifying our November 14, 2013 vote until after our January 7, 2014 vote approving rates based on the corrected roll-forward adjustments.

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<sup>6</sup> See Document No. 03430-13, filed June 19, 2013.

This Order addresses the Utility's requested final rates and the appropriate disposition of the interim rates and regulatory assets. It also incorporates our decision on the roll-forward issues as reflected by our vote on January 7, 2014. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

## Decision

### II. Quality of Service

#### A. The Utility's Attempts to Address Customer Satisfaction

In its filing, the Utility provided a copy of the customer complaints that it received during the test year. The complaints included billing concerns, water quality, equipment repair, and miscellaneous. In total, the Utility received 1,543 complaints and 122 or 8 percent were related to water quality. Approximately 68 percent of the complaints received by the Utility were billing issues and most of the billing complaints came from customers in Ravenna Park. Currently, there are no unresolved complaints and it appears the Utility is promptly responding to customers' water and wastewater concerns in all systems except Summertree.

The Commission's Complaint Activity Tracking System (CATS) was also reviewed. For the year 2012, this Commission received six complaints. All of these complaints (100 percent) were categorized as Quality of Service/Customer Satisfaction related to billing. For January 2013 through September 2013, we received eight complaints, and 75 percent of these complaints were also billing related issues. There are currently no outstanding complaints in CATS program for the Utility.

Customer meetings were held in Altamonte Springs and New Port Richey. Four customers attended the Altamonte Springs meeting and all were from the Park Ridge subdivision. The customers commented that the bills go up and water quality goes down. The customers also stated the water is dirty, smelly, and that there is dark colored sediment in sinks and tubs. The customers also said they are afraid to use the water and that the Utility is non-responsive. One customer stated the Utility did work with her concerning her water quality issues. In this instance, the Utility requested that she flush her pipes in her house and provided a usage allowance for flushing. As a result, the customer stated the water quality improved, but she is afraid it is only temporary. Another customer mentioned having an asbestos distribution line and would like it replaced. Commission staff provided supplemental information to the customer concerning asbestos distribution lines.

83 customers attended the New Port Richey meeting and 20 customers spoke. Of the 20 customers that spoke at the meeting, all were from the Summertree subdivision. Most of the customers mentioned billing issues and compared their bills to Pasco County Utility bills. The customers maintain their bills are higher and the water quality is worse, and they would prefer to have Pasco County as their water service provider instead of Utilities, Inc. of Florida. Some customers argued the Utility should have a rate decrease, not an increase. Other customers noted the water quality has an odor, slime, iron and a calcium build-up. Another customer mentioned the Utility has come a long way since 2009 and that the Utility gave the Home Owners

Association (HOA) a contact person. Other customers stated that they use home filtration systems because of the quality of the water and believed the Utility takes too long to fix problems and that there have been no infrastructure improvements with the exception of auto-flushing.

Several customers also stated the Utility was warning them not to drink the water in the Utility's Customer Confidence Report (CCR). The customers were referring to the "EPA Wants You to Know" section of the CCR. The customers were quoting "[s]ome people may be more vulnerable to contaminants in drinking water than the general population. These people should seek advice about drinking water from their health care providers." Commission staff verified with DEP that this language is required by the Federal Environmental Protection Agency and all utilities are required to have the statement in the CCR. DEP approves the CCR reports before the utilities send them to its customers.

Of the twenty-five written customer comments sent to this Commission regarding this rate case, twenty-one were from Summertree in Pasco County, two were from Park Ridge in Seminole County, one comment was from Lake Tarpon, and one from Little Wekiva. All the customers are opposed to a rate increase and most noted the water quality at Summertree and Park Ridge was undesirable, with many stating they have water softeners or filters at their home and purchase bottled water to drink, opting not to drink the Utility's water. Representative Corcoran and Senator Simpson also sent letters to this Commission on behalf of customers.

Water provided at the Summertree system is in compliance with primary and secondary standards according to DEP. Drinking water is tested at the point of entry into the distribution system and, depending upon water usage by customers, water quality can diminish during low consumption periods. As stated above, DEP is aware of the situation at Summertree and is satisfied with the Utility's action plan. DEP responds to all customer complaints by contacting the Utility. In turn, the Utility dispatches a service representative to the customer's home.

The customer complaints, which were filed with the Utility during its test year and are part of the Utility's filing in this docket, have been responded to by the Utility. For the majority of customers, it appears they are satisfied with the service provided by the Utility. The customers of Summertree, who are clearly not satisfied with the quality of the water, are the exception to this finding. Although there are customer concerns specifically about water quality in Summertree and Park Ridge, the Utility's records indicated it responds to each complaint in an attempt to provide a satisfactory resolution. Most complaints were resolved with a visit from a Utility service representative who flushed the water main or suggested that the customer bypass the water softener to restore chlorine levels in the water.

#### B. Quality of Product and Operational Condition of the Plant and Facilities

The Utility has fourteen water systems in this docket. Crescent Heights and Davis Shores in Orange County purchase potable water from the Orlando Utilities Commission and Orange County. The other twelve systems in Pasco, Pinellas, and Seminole Counties have water plants that produce potable water. Six of these systems received minimal amounts of potable water during the test year via emergency interconnects with other utilities.

UIF has four wastewater systems in this proceeding. The Summertree and Orangewood systems in Pasco County purchase bulk wastewater treatment from Pasco County, while the Ravenna Park and Weathersfield systems in Seminole County purchase bulk wastewater from the cities of Sanford and Altamonte Springs.

There are no outstanding notices of violation, corrective orders, or other infractions for the water systems. The water quality for the systems is meeting DEP standards. Plant inspections by the DEP are current, having been performed in the last three years for each of the systems. UIF has four wastewater systems in Pasco and Seminole Counties. Since Orangewood, Summertree, Ravenna Park, and Weathersfield purchase bulk wastewater treatment, these systems do not have plants for DEP to inspect.

In the last rate case, per Order No. PSC-10-0585-PAA-WS, the Utility was to re-test the quality of the Summertree water system to determine if it met the primary and secondary DEP standards. The extra testing was required within sixty days of the issuance of the Order. On September 3, 2010, the Utility provided updated tests and the results revealed the Utility continued to meet the primary and secondary DEP standards. The Utility was also required to meet with the customers of Summertree, within eight months after the issuance of the Order, to discuss water quality improvement options. The Utility stated that in December 2010, representatives from the Utility met with the Summertree customers and discussed several items. One outcome of the meeting to improve the water quality in Summertree was the installation of automatic flushing valves at three locations on dead end lines. This would allow the Utility to better maintain the chlorine residual in the system and reduce the presence of sulfur odors at the tap. During the Commission Conference, several of the customers who were involved in meetings with the Utility confirmed that the required meeting did take place as described by the Utility. However, these customers expressed dissatisfaction that, in their opinion, there was insufficient follow-up from the Utility to address the water quality issues. Based on the responses from the Utility and several customers, it is evident that the Utility complied with the specific requirement in Order No. PSC-10-0585-PAA-WS that the Utility meet with the customers. It does not appear that sufficient follow-up took place between the Utility and the customers. It is unclear, however, if the fault lies with the Utility, the customers or some combination of the two. Therefore, we find the Utility complied with both requirements of Order No. PSC-10-0585-PAA-WS in conducting extra testing and meeting, at least initially, with the Summertree customers.

In the last rate case, the Summertree water system was exceeding state standards for total trihalomethanes and five halo acetic acids in 2005 and 2006. The Utility converted its disinfection process from chlorine to chloramines, and the water quality reached compliance with DEP standards in 2008. The source water has sulfide, and system flushing helps maintain adequate chlorine residual and reduce the sulfide taste and odor.

In 2012, the Summertree system tested high for iron at one back-up well. The Utility added iron sequestering to its treatment process, and to reduce iron discoloration in the water, chlorine was added. Too much chlorine raises the trihalomethanes levels. To bring the trihalomethanes levels back down, chloramine disinfection was added to the treatment process. DEP explained that finding a balance with high iron and high trihalomethanes is difficult. DEP is satisfied with the Utility's action plans for Summertree.

The Park Ridge system is also on a chloramine disinfection treatment process. Park Ridge started the chloramine disinfection process in 2012 to correct the high levels of trihalomethanes. Sometimes byproducts of the chloramine disinfection are residue and slime. To help reduce those byproducts, Park Ridge was under a DEP approved "chlorine burn" from July 24, 2013 to October 27, 2013. Since the Utility also replaced some galvanized pipe, the Park Ridge system may return to the regular chlorine disinfection process and has received many favorable comments from the customers indicating the burn has significantly improved the water quality.

Commission staff conducted field inspections of all of the Utility's Pasco and Pinellas County systems on August 7, 2013; on August 8 and 9, 2013, all of the Orange and Seminole County systems were inspected. The water and wastewater facilities were in good working order and no deficiencies were observed.

The Utility's systems are meeting all DEP requirements and appear to be operating properly. The Utility is showing initiative in the DEP-approved action plans. DEP appears to be satisfied with the Utility's action plans.

Therefore, we find that that the quality of the treated water and wastewater and the operational condition of the plant and facilities for all of the systems except the Summertree Water System are satisfactory. Based on all of the information provided we find the quality of the treated water for the Summertree Water System unsatisfactory.

### C. Future Actions

In addressing the issue of water quality within the Summertree Water System, it is important to acknowledge two facts. First, a substantial number of the Summertree customers are displeased with the quality of the water. Second, the technical solutions to address water quality vary in terms of cost and effectiveness, which will have an impact on the rates paid by the customers. Therefore, it is important that all parties concerned have an understanding of the costs and benefits of the proposed solutions and that the parties can generally agree on how the water quality issue shall be resolved.

In order to reach a satisfactory solution, the Utility shall take the following actions:

1. The Utility will work in coordination with OPC to develop a customer engagement plan to solicit input and present options to the Summertree customers. The Utility may elect to work through the Summertree Homeowners Associations and the organization known as the Summertree Water Users Association to engage the customers.

2. As part of the customer engagement plan, the Utility will identify suitable options to address the secondary water quality issues. The Utility shall identify all costs of installation and estimated annual operating costs. The Utility shall also estimate the rate impact of each option on the average residential customer. As part of the options considered, the Utility will examine the cost and feasibility of connecting to the Pasco County water system and purchasing bulk water from the County. We acknowledge that at this time it is uncertain if the County is willing or able to approve such an option.

3. After the study options have been presented to the Summertree customers, the Utility shall conduct a survey of the customers to determine customer preferences as to which solutions, if any, should be implemented to address the water quality issues. At the discretion of OPC and the Utility, OPC may elect to conduct or monitor this survey.

4. We encourage all participants in this process to retain all notes, records and minutes of this process for evaluation by this Commission. Copies of any studies, presentations and the results of any customer surveys undertaken in this matter shall be provided to this Commission.

5. The Utility shall coordinate all of the actions contemplated under the customer engagement plan with OPC to ensure compliance with both the letter and spirit of this Order. It is our desire to grant the Utility a degree of flexibility to work with the customers in order to identify and implement a mutually satisfactory solution to the water quality issue. We believe OPC's role as in this matter is one of a facilitator who can oversee this process. In the event that the participants in this process determine that any party to this process is not complying with the provisions of this Order or is inhibiting the customer engagement plan, we strongly encourage them to contact Commission staff, who shall take steps to clarify or rectify the matter or to bring the matter before this Commission for resolution.

### **III. Rate Base**

#### **A. Audit Adjustments to Rate Base**

In its response to the Commission staff audit report and other correspondence, UIF agreed to the audit adjustments as set forth in the tables below.

Table 1

<u>UIF Audit Adjustments</u>	<u>Description of Adjustments</u>
Finding No. 1	Reflect prior Commission-ordered adjustments.
Finding No. 2	Reflect additions to Contributions-in-Aid-of-Construction adjustments.
Finding No. 4	Reclassification of expenses associated with total power purchased.
Finding No. 5	Correct erroneous and misclassified O&M expenses.
<u>Affiliate Audit Adjustments</u>	<u>Description of Adjustments</u>
Finding No. 1	Reflect transportation equipment retirements.
Finding No. 4	Correct misclassified accumulated depreciation adjustments.
Finding No. 5 <sup>7</sup>	Cost of Capital (Only revised equity amount.)
Finding No. 6	Correct allocation factor for four expense accounts.
Finding No. 7	Remove adjustment to expenses allocated from Altamonte Springs Headquarters.
Finding No. 8 <sup>8</sup>	Remove adjustment to expenses allocated from Northbrook, Illinois Headquarters.

In response to UIF Audit Finding No. 1, the Utility provided a corrected net depreciation adjustment for Seminole County water. We agree with the Utility's explanation and have included the Utility's corrected increase of \$697, instead of the \$4,247 increase in net depreciation calculated in the audit. In addition, we note that UIF Audit Finding Nos. 3 and 7 were made for information purposes only. The Utility acknowledged that these two findings were informational in nature, but did not expressly agree or disagree with Commission audit staff's findings.

Concerning the Seminole County wastewater portion of Affiliate Audit Finding No. 7, the Utility agreed with Commission audit staff's rationale, but calculated a different adjustment amount. The Utility contended that the Seminole County lift station expenses should have been charged directly to the lift station's division (Weathersfield). We agree with the Utility and made the appropriate corresponding adjustment. The net effect is an increase in expenses of \$1,563 instead of a reduction of \$318.

Based on the audit adjustments agreed to by the Utility, we find that the adjustments set forth in Tables 2 through 7 shall be made to rate base and net operating income.

<sup>7</sup> The Utility agrees with the revised equity amount, but disagrees with the remainder of Finding No. 5.

<sup>8</sup> Audit Finding No. 8 addressed numerous audit adjustments. While the Utility agreed with most of the adjustments, a couple of adjustments were contested. The contested adjustments are addressed in the section of this Order titled Net Operating Income.

Table 2

<u>Orange County Water</u>						
<u>UIF</u> <u>Audit Adjustments</u>	<u>Plant</u>	<u>Acc.</u> <u>Dep.</u>	<u>CIAC</u>	<u>Acc. Amort.</u> <u>of CIAC</u>	<u>Net</u> <u>Dep.</u>	<u>O&amp;M</u> <u>Exp.</u>
Finding No. 2	\$0	\$0	(\$115)	\$3	(\$6)	\$0
<u>Affiliate</u> <u>Audit Adjustments</u>	<u>Plant</u>	<u>Acc.</u> <u>Dep.</u>	<u>CIAC</u>	<u>Acc. Amort.</u> <u>of CIAC</u>	<u>Net</u> <u>Dep.</u>	<u>O&amp;M</u> <u>Exp.</u>
Finding No. 1	4,760	(4,956)	0	0	565	(261)
Finding No. 4	0	(10,229)	0	0	0	0
Finding No. 6	0	0	0	0	0	(1,708)
Finding No. 7	0	0	0	0	0	(69)
Finding No. 8	0	0	0	0	0	(108)
Adjustment Totals	<u>\$4,760</u>	<u>(\$15,185)</u>	<u>\$115</u>	<u>\$3</u>	<u>\$559</u>	<u>(\$2,146)</u>

Table 3

<u>Pasco County Water</u>						
<u>UIF</u> <u>Audit Adjustments</u>	<u>Plant</u>	<u>Acc.</u> <u>Dep.</u>	<u>CIAC</u>	<u>Acc. Amort.</u> <u>of CIAC</u>	<u>Net</u> <u>Dep.</u>	<u>O&amp;M</u> <u>Exp.</u>
Finding No. 1	\$0	\$0	\$0	(\$30,610)	\$0	\$0
Finding No. 2	0	0	(672)	70	(34)	0
Finding No. 4	0	0	0	0	0	(488)
Finding No. 5	0	0	0	0	0	(285)
<u>Affiliate</u> <u>Audit Adjustments</u>	<u>Plant</u>	<u>Acc.</u> <u>Dep.</u>	<u>CIAC</u>	<u>Acc. Amort.</u> <u>of CIAC</u>	<u>Net</u> <u>Dep.</u>	<u>O&amp;M</u> <u>Exp.</u>
Finding No. 1	39,541	(34,174)	0	0	3,711	(92)
Finding No. 4	0	(98,798)	0	0	0	0
Finding No. 7	0	0	0	0	0	(666)
Finding No. 8	0	0	0	0	0	(1,079)
Adjustment Totals	<u>\$39,541</u>	<u>(\$132,972)</u>	<u>(\$672)</u>	<u>(\$30,540)</u>	<u>\$3,677</u>	<u>(\$2,610)</u>

Table 4

<u>Pasco County Wastewater</u>						
<u>UIF Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>O&amp;M Exp.</u>
Finding No. 1	\$0	\$0	\$0	(\$23,424)	\$0	\$0
Finding No. 4	0	0	0	0	0	488
Finding No. 5	0	0	0	0	0	(264)
<u>Affiliate Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>O&amp;M Exp.</u>
Finding No. 1	15,591	(13,475)	0	0	1,463	(36)
Finding No. 4	0	(38,957)	0	0	0	0
Finding No. 7	0	0	0	0	0	(263)
Finding No. 8	0	0	0	0	0	(424)
Adjustment Totals	<u>\$15,591</u>	<u>(\$52,432)</u>	<u>\$0</u>	<u>(\$23,424)</u>	<u>\$1,463</u>	<u>(\$499)</u>

Table 5

<u>Pinellas County Water</u>						
<u>UIF Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>O&amp;M Exp.</u>
Finding No. 5	\$0	\$0	\$0	\$0	\$0	(\$251)
<u>Affiliate Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>Dep. Exp.</u>
Finding No. 1	5,891	(5,093)	0	0	553	(6)
Finding No. 4	0	(14,738)	0	0	0	0
Finding No. 7	0	0	0	0	0	(99)
Finding No. 8	0	0	0	0	0	(166)
Adjustment Totals	<u>\$5,891</u>	<u>(\$19,831)</u>	<u>0</u>	<u>0</u>	<u>\$553</u>	<u>(\$522)</u>

Table 6

<u>Seminole County Water</u>						
<u>UIF Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>Trans. Exp.</u>
Finding No. 1	\$0	\$0	\$296,212	(\$117,931)	\$34,367	\$0
Finding No. 2	0	0	(9,744)	239	(362)	0
<u>Affiliate Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>Trans. Exp.</u>
Finding No. 1	44,171	(43,255)	0	0	4,912	(2,662)
Finding No. 4	0	(88,845)	0	0	0	0
Finding No. 7	0	0	0	0	0	(599)
Finding No. 8	0	0	0	0	0	(971)
Adjustment Totals	<u>\$44,171</u>	<u>(\$132,100)</u>	<u>\$286,468</u>	<u>(\$117,692)</u>	<u>\$38,917</u>	<u>(\$4,232)</u>

Table 7

<u>Seminole County Wastewater</u>						
<u>UIF Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>O&amp;M Exp.</u>
Finding No. 1	\$0	\$0	\$269,264	(\$2,195)	\$697	\$0
<u>Affiliate Audit Adjustments</u>	<u>Plant</u>	<u>Acc. Dep.</u>	<u>CIAC</u>	<u>Acc. Amort. of CIAC</u>	<u>Net Dep.</u>	<u>O&amp;M Exp.</u>
Finding No. 1	23,431	(22,945)	0	0	2,606	(1,412)
Finding No. 4	0	(47,128)	0	0	0	0
Finding No. 7	0	0	0	0	0	1,563
Finding No. 8	0	0	0	0	0	(513)
Adjustment Totals	<u>\$23,431</u>	<u>(\$70,073)</u>	<u>\$269,264</u>	<u>(\$2,195)</u>	<u>\$3,303</u>	<u>(\$362)</u>

B. Summary

Based on the agreed-to audit adjustments, the following adjustments to rate base and net operating income shall be made as shown in Table 8.

Table 8

Summary of UIF's Agreed to Audit Adjustments						
System	Plant	Acc. Dep.	CIAC	Acc. Amort. of CIAC	Net Dep.	O&M Exp.
Orange Water	\$4,760	(\$15,185)	(\$115)	\$3	\$559	(\$2,146)
Pasco Water	39,541	(132,972)	(672)	(30,540)	3,677	(2,610)
Pasco Wastewater	15,591	(52,432)	0	(23,424)	1,463	(499)
Pinellas Water	5,891	(19,831)	0	0	553	(522)
Seminole Water	44,171	(132,100)	286,468	(117,692)	38,917	(4,232)
Seminole Wastewater	<u>23,431</u>	<u>(70,073)</u>	<u>269,264</u>	<u>(2,195)</u>	<u>3,303</u>	<u>(362)</u>
Adjustment Totals	<u>\$133,385</u>	<u>(\$422,593)</u>	<u>\$554,945</u>	<u>(\$173,848)</u>	<u>\$48,472</u>	<u>(\$10,371)</u>

C. Roll-Forward Adjustments

As discussed previously, we approved additional adjustments to rate base at our January 7, 2014 Agenda Conference related to errors in the Utility's roll-forward adjustments. Based on our review of these corrections, we find that additional adjustments to rate base for Orange County Water, Pasco County Wastewater, and Seminole County Wastewater are warranted.

1. Orange County – Water

In calculating four of its roll-forward adjustments, the Utility increased plant by a total of \$113,795, which we are removing to be consistent with the prior case. Related accumulated depreciation and depreciation expense shall be decreased by \$86,264 and \$5,368, respectively.

When the Utility recorded a Commission ordered adjustment from Docket 060253-WS, it reduced CIAC instead of increasing it. In Docket 090462-WS, the Utility had to make two roll-forward adjustments in the filing, which increased CIAC to correct the error and to make the proper adjustment. In the current case, the Utility did not make the roll-forward adjustment correctly. Only one adjustment to increase CIAC ended up in the filing. Another adjustment to increase CIAC by \$42,868 is required. We have also made related adjustments to increase Accumulated Amortization of CIAC by \$27,205 and to increase Amortization of CIAC by \$3,966.

2. Pasco County – Wastewater

In calculating one of its roll-forward adjustments, the Utility mistakenly used \$31,587 for the book balance rather than the correct amount of \$214,286, which results in an overstatement of plant by \$182,699. In addition, we recalculated the roll-forward amount to be consistent with the prior order, which results in an increase to plant of \$5,178. Plant shall be decreased by \$177,521 (\$182,699 - \$5,178). Related accumulated depreciation shall be decreased by \$89,947. The depreciation expense was adjusted correctly.

In calculating another one of its roll-forward adjustments, the Utility mistakenly used \$37,801 for the book balance rather than the correct amount of \$588,752, which results in an overstatement of plant by \$550,952. In addition, we recalculated the roll-forward amount to be consistent with the prior order, which results in a decrease to plant of \$44,674. Plant shall be decreased by \$595,626 ( $\$550,952 + \$44,674$ ). Related accumulated depreciation and depreciation expense shall be decreased by \$243,625 and \$1,603, respectively.

In calculating another one of its roll-forward adjustments, the Utility increased plant by \$120,891, which we are removing to remain consistent with the prior case. Related accumulated depreciation and depreciation expense shall be decreased by \$168,235 and \$6,740, respectively.

### 3. Seminole County – Wastewater

In calculating one of its roll-forward adjustments, the Utility mistakenly used \$35,012 for its book balance rather than the correct amount of \$138,317, which results in an overstatement of plant by \$103,305. In addition, we recalculated the roll-forward amount to be consistent with the prior order, which results in an increase to plant of \$2,843. Plant shall be decreased by \$100,462 ( $\$103,305 - \$2,843$ ). Related accumulated depreciation shall be decreased by \$70,778. Depreciation expense was adjusted correctly.

We made an adjustment to decrease Seminole County's Wastewater CIAC balance by \$269,264 to correct an adjustment, which the Utility had recorded on its books in the wrong CIAC subaccount. The decrease of \$269,264 to one CIAC subaccount should have been offset by an increase to the correct CIAC subaccount. However, Commission audit staff inadvertently included only the decrease to CIAC.

### 4. Conclusion

The additional, corrective adjustments discussed above significantly impact the revenue requirements for Orange County water, Pasco County wastewater, and Seminole County wastewater systems. In addition, the adjustments have a fall-out effect on UIF's overall cost of capital which affects the remaining systems in this case. Specifically, as a result of the adjustments above, the appropriate weighted average cost of capital for all UIF systems for purposes of setting rates in this proceeding is 7.34 percent, as shown on Schedule No. 1-A. Schedule Nos. 2-4 have been updated to account for the fall-out revisions associated with the corrections for errors related to the Utility's roll-forward adjustments. The resulting revenue impacts for all systems for this case are reflected in the following table.

Table 9

<u>County/System</u>	<u>PAA Revenue Increase (or Decrease)</u>	<u>PAA % Change</u>	<u>Revised Revenue Increase (or Decrease)</u>	<u>Revised % Change</u>
Orange - Water	\$25,121	21.65%	\$10,565	9.10%
Pasco - Water	\$192,354	21.24%	\$165,709	18.30%
Pasco - Wastewater	(\$12,337)	(2.34%)	(\$63,346)	(12.00%)
Pinellas - Water	\$62,989	59.89%	\$62,327	59.26%
Seminole - Water	\$218,837	24.96%	\$215,440	24.57%
Seminole - Wastewater	\$104,030	12.74%	\$70,033	8.57%

The resulting water and wastewater rates from the corrected revenue requirements are shown on Schedule Nos. 4-A through 4-E.

#### **IV. Project Phoenix Financial/Customer Care Billing System**

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. UI's Phoenix Project became operational in December 2008. Since 2009, we have approved recovery of the cost of the Phoenix Project in several UI rate cases.<sup>9</sup> In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

##### **A. Allocation of Phoenix Project Costs**

In the instant case, UI allocated 3.57 percent of its costs to UIF based on the ratio of its ERCs to the total ERCs at the corporate level.<sup>10</sup> In a recent Commission decision for a sister utility, the total Phoenix Project costs for the test year were \$22,397,283,<sup>11</sup> of which UIF's allocated share was 3.57 percent, or \$799,583.

##### **B. 2009 Divestitures of UI Subsidiaries**

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but

<sup>9</sup> See Docket Nos. 120076-SU, 120037-WS, 110257-WS, 110264-WS, 110153-SU, 100426-WS, 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>10</sup> The amount of costs allocated to UIF is based on its ERC ratio to the total ERCs at the corporate level. The Utility calculated the allocation ratio at 3.57 percent using the following figures. In 2011, the Illinois office allocated 0.11 percent to Orange County, 1.54 percent to Pasco County, 0.17 percent to Pinellas County, and 1.52 percent to Seminole County. Each county then allocates the cost from headquarters between its water and wastewater systems by each system's ERCs.

<sup>11</sup> See Order No. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke, at p. 7.

did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.<sup>12</sup> Because no added benefit was realized by the remaining subsidiaries, we found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we ruled that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

C. Affiliate Audit Finding Nos. 2 and 3

In Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and then required UI to deduct \$1,724,166 from the total cost of the Phoenix Project for divestitures, resulting in a balance of \$19,893,321, before allocating costs to the remaining UI subsidiaries.<sup>13</sup> According to the Affiliate Audit Report, the Utility did not make adjustments in the MFRs to reflect the amounts ordered for Project Phoenix. The Utility's restatement schedule shows the Project Phoenix balance at December 31, 2008, to be \$21,525,403. The difference between the Utility's balance and the ordered amount is \$1,632,082. Affiliate Audit Finding No. 2 recommends that plant and accumulated depreciation be reduced for each county and system to reflect the allocated share of the Commission-ordered Project Phoenix cost of \$19,893,321.

In Affiliate Audit Finding No. 3, audit discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed in Order No. PSC-10-0407-PAA-SU. Commission audit staff adjusted the accumulated depreciation and depreciation expense on Phoenix Project from eight to ten years to comply with that Order.

In its response to the Affiliate Audit Report, the Utility disagreed with Affiliate Audit Finding Nos. 2 and 3. Moreover, the Utility believes this matter will be resolved upon the closing of the UI Generic Docket No. 120161-WS.<sup>14</sup> No additional information was provided by the Utility. We find that the appropriate depreciable life for the Phoenix Project is still ten years. Based on Affiliate Audit Finding Nos. 2 and 3, our prior orders, and the additional subsidiary divestitures discussed below, we find that the following adjustments need to be made to plant, accumulated depreciation, and depreciation expense.

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<sup>12</sup> See Order No. 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, at p. 10.

<sup>13</sup> See Order No. PSC-10-0407-PAA-SU, issued on June 21, 2010, in Docket No. 090381-WS, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, at p. 6.

<sup>14</sup> On May 23, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida-subsiidiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address this Commission's treatment of the Phoenix Project costs. This generic docket has been assigned Docket No. 120161-WS.

D. Additional Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries in North Carolina, South Carolina, and Florida. The four divested systems collectively represent 9,518 ERCs. In Order No. PSC-12-0206-PAA-WS, we further reduced the total cost of the Phoenix Project for systems divested in 2010.<sup>15</sup> Consistent with our prior decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for subsequent divestitures. In 2011 and 2012, a total of 9 additional systems were divested by UI, representing an additional 7,909 ERCs. For purposes of this adjustment, the net number of ERCs related to the divested systems is 17,427 (9,518 + 7,909), or 6.63 percent of the total number of ERCs for UI. The divested systems and the corresponding ERCs are shown in the table below.

Table 10

ERC/Percentage of Divested Subsidiaries		
<u>System</u>	<u>ERCs</u>	<u>ERC %</u>
Bio Tech Admin.	0	0.00%
Carolina Water Serv., Inc. of N.C.	327	0.12%
South Carolina Utilities, Inc. (United Utility Company)	246	0.09%
Alafaya Utilities, Inc. (as of 12/31/07)	8,945	3.41%
Carolina Water Serv., Inc. of N.C.	512	0.19%
Cabarrus Woods	5,175	1.97%
Forest Ridge	518	0.20%
Lamplighter Village	349	0.13%
Britley	123	0.05%
Windsor Chase	135	0.05%
Bayside Utility Services	437	0.17%
Sandy Creek Services	370	0.14%
Woodbury Subdivision	290	0.11%
Total	17,427	6.63%

Consistent with our prior decisions, the total cost of the Phoenix Project for UI shall be reduced by an additional 6.63 percent, or \$1,485,836 (\$22,397,283 x 0.06634), to account for the divestiture of subsidiaries through 2012. The effect on the filing is a decrease to plant by \$49,626. Corresponding adjustments shall also be made to decrease both accumulated depreciation and depreciation expense by \$2,481 and \$4,962, respectively.

In this case, Commission audit staff determined that the Utility did not make the adjustment for the Phoenix Project that we had previously ordered. Therefore, plant shall be adjusted by \$54,512. Corresponding adjustments shall also be made to increase accumulated depreciation by \$16,354, and decrease depreciation expense by \$5,452. The depreciation

<sup>15</sup> See Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., at p. 12.

calculation is based on a depreciable life of ten years for the Phoenix Project. Tables 11 through 13 show the plant, accumulated depreciation, and depreciation expense adjustments described above by water or wastewater service for each county, as well as the total adjustment for each county which is reflected on the appropriate Schedule Nos. 1-C and 3-C.

Table 11

Plant Adjustments			
System	Divestiture Plant Adj.	Prior Order Plant Adj.	Total Adjustment
Orange - Water	(\$1,634)	(\$1,795)	(\$3,430)
Pasco - Water	(16,344)	(18,027)	(34,371)
Pasco - Wastewater	(6,538)	(7,108)	(13,646)
Pinellas - Water	(2,526)	(2,775)	(5,300)
Seminole - Water	(14,710)	(16,209)	(30,919)
Seminole - Wastewater	(7,875)	(8,598)	(16,473)
Total	(\$49,626)	(\$54,512)	(\$104,139)

Table 12

Accumulated Depreciation Adjustments			
System	Divestiture Acc. Dep. Adj.	Prior Order Acc. Dep. Adj.	Total Adjustment
Orange - Water	(\$82)	\$539	\$457
Pasco - Water	(817)	5,408	4,591
Pasco - Wastewater	(327)	2,132	1,805
Pinellas - Water	(126)	832	706
Seminole - Water	(735)	4,863	4,127
Seminole - Wastewater	(394)	2,580	2,186
Total	(\$2,481)	\$16,354	\$13,872

Table 13

Depreciation Expense Adjustments			
<u>System</u>	<u>Divestiture Dep. Exp. Adj.</u>	<u>Prior Order Dep. Exp. Adj.</u>	<u>Total Adjustment</u>
Orange - Water	(\$163)	(\$180)	(\$343)
Pasco - Water	(1,634)	(1,803)	(3,437)
Pasco - Wastewater	(654)	(711)	(1,365)
Pinellas - Water	(253)	(277)	(530)
Seminole - Water	(1,471)	(1,621)	(3,092)
Seminole - Wastewater	(787)	(860)	(1,647)
Total	<u>(\$4,962)</u>	<u>(\$5,452)</u>	<u>(\$10,414)</u>

E. Computer Maintenance Expense

In several recent rate cases involving UIF's sister companies, we recognized the volatility of computer maintenance expense, determined that a five-year average is an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with our treatment of the Phoenix Project costs per ERC.<sup>16</sup> Based on the 5-year average and UIF's ERC allocation percentage, calculated a reduction of \$15,436, \$10,987 for water and \$4,449 for wastewater. Moreover, to remove the Phoenix Project computer maintenance charge for the divested systems' share, computer maintenance expense shall be further reduced by \$448 for water and \$181 for wastewater. The following table shows the adjustments described above by water or wastewater service for each county, as well as the total adjustment for each county which is reflected on the appropriate Schedule No. 3-C.

Table 14

Computer Maintenance Expense Adjustments			
<u>System</u>	<u>5-yr. Avg. Exp. Adj.</u>	<u>Divest. Adj.</u>	<u>Total Adj.</u>
Orange - Water	(\$529)	(\$22)	(\$550)
Pasco - Water	(5,105)	(208)	(5,313)
Pasco - Wastewater	(2,013)	(82)	(2,095)
Pinellas - Water	(762)	(31)	(793)
Seminole - Water	(4,591)	(187)	(4,778)
Seminole - Wastewater	(2,436)	(99)	(2,535)
Total	<u>(\$15,436)</u>	<u>(\$629)</u>	<u>(\$16,064)</u>

<sup>16</sup> See Order Nos. PSC-12-0667-PAA-WS and PSC-12-0206-PAA-WS.

#### F. Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (UIF's parent company) with the consent and support of OPC, petitioned this Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project. In that Agreement, the Parties agreed, and we subsequently ordered,<sup>17</sup> that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset<sup>18</sup> or liability,<sup>19</sup> at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. We also ordered that the regulatory asset or liability be amortized over four years. We have ordered this same treatment for other UIF sister companies, including Sanlando Utilities Corporation and Utilities, Inc. of Pennbrooke.<sup>20</sup> Therefore, consistent with our actions in Docket No. 110153-SU, we hold that UIF is authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in UIF's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over 4 years.

#### G. Conclusion

We find that plant shall be reduced by \$74,020 for water and \$30,119 for wastewater. Corresponding adjustments shall be made to reduce accumulated depreciation by \$9,881 for water and \$3,991 for wastewater and reduce depreciation expense by \$7,402 for water and \$3,012 for wastewater. Computer maintenance expense shall be reduced by \$11,434 for water and \$4,631 for wastewater. In addition, consistent with our previous decisions, UIF shall be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in UIF's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over 4 years.

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<sup>17</sup> See Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, at pp. 2, 9.

<sup>18</sup> A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. This Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

<sup>19</sup> An example of a regulatory liability would be the deferral of past overearnings to future periods.

<sup>20</sup> See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Table 15

<u>County</u>	<u>Water Plant In Service</u>	<u>Wastewater Plant In Service</u>	<u>Water Accum. Depr.</u>	<u>Wastewater Accum. Depr.</u>	<u>Water Dep. Expense</u>	<u>Wastewater Dep. Expense</u>	<u>Water Computer Maint. Exp.</u>	<u>Wastewater Computer Maint. Exp.</u>
Orange	(\$3,430)	\$0	\$457	\$0	(\$343)	\$0	(\$550)	\$0
Pasco	(34,371)	(13,646)	4,591	1,805	(3,437)	(1,365)	(5,313)	(2,095)
Pinellas	(5,300)	0	706	0	(530)	0	(793)	0
Seminole	(30,919)	(16,473)	4,127	2,186	(3,092)	(1,647)	(4,778)	(2,535)
Total	<u>(\$74,020)</u>	<u>(\$30,119)</u>	<u>\$9,881</u>	<u>\$3,991</u>	<u>(\$7,402)</u>	<u>(\$3,012)</u>	<u>(\$11,434)</u>	<u>(\$4,631)</u>

**V. Test Year Plant Adjustments**

According to Pasco County’s MFR Schedule B-7, Contractual Services – Engineering expense increased by \$1,367 during the test year. The explanation provided states, “Eng. Services used in support of permitting activities in Summertree regarding addition of polyphosphate.” Commission staff asked the Utility to clarify whether the costs were reflective of total costs or the amortized portion of the total cost in its First Data Request. According to the Utility, the costs associated with the Sequestrant Injection Improvements are reflective of the total cost of this one-time event.<sup>21</sup> As such, we find that engineering expenses related to the polyphosphate addition shall be capitalized to plant since they are a one-time event.

Accordingly, we find that this expense shall be removed from Pasco County water’s Contractual Services – Engineering expense and capitalized to plant. Pasco County’s Contractual Services – Engineering expense shall be decreased by \$1,367 and plant shall be increased by \$1,367. Consequently, corresponding adjustments shall be made to increase accumulated depreciation by \$62, depreciation expense by \$62, and taxes other than income by \$20. Accumulated deferred income taxes shall also be increased by \$254.

**VI. Pro Forma Plant Additions and Associated Expenses**

In its MFRs, UIF reflected pro forma additions of \$1,202,797 for water and \$213,000 for wastewater net of retirements. The following table provides a breakdown of each pro forma plant addition.

<sup>21</sup> See Document No. 04035-13, filed July 15, 2013, Utility’s Responses to First Data Request, p. 21.

Table 16

<u>Pro Forma Projects/Retirements by County</u>	<u>Water</u>	<u>Wastewater</u>
<b><u>Pasco</u></b>		
Summertree - Well 13 Hydro Tank Replacement	\$70,000	
Retirement for Hydro Tank	(13,741)	
Orangewood/Buena Vista - Water Dist. Plant Replacement	300,000	
Retirement for Water Dist. Plant	(46,638)	
Total Pasco	<u>\$309,621</u>	
<b><u>Pinellas</u></b>		
Lake Tarpon - Replacement of a Portion of Dist. System	\$300,000	
Retirement for Dist. System	(49,563)	
Total Pinellas	<u>\$250,437</u>	
<b><u>Seminole</u></b>		
Park Ridge - Water Dist. and Valve Replacement	\$280,000	
Retirement for Water Dist. and Valve	(35,860)	
Park Ridge - WTP Electrical Equipment Replacement	80,000	
Retirement for Park Ridge WTP Electrical Equipment	(10,191)	
Park Ridge - Emergency Interconnect with Sanford	65,000	
Ravenna Park - WTP Electrical Equipment Replacement	100,000	
Retirement for Ravenna Park WTP Electrical Equipment	(12,739)	
Phillips - WTP Electrical Equipment Replacement	80,000	
Retirement for Phillips WTP Electrical Equipment	(10,191)	
Weathersfield - WTP Electrical Equipment Replaced	65,000	
Retirement for Weathersfield WTP Electrical Equipment	(8,280)	
Weathersfield - Valve Installation	<u>50,000</u>	
Ravenna Park - Force Main Replacement		\$80,000
Retirement for Ravenna Park Force Main		(22,765)
Ravenna Park - Reduction of I&I		<u>155,765</u>
Total Seminole	<u>\$642,739</u>	<u>\$213,000</u>
TOTAL ADDITIONS	<u>\$1,202,797</u>	<u>\$213,000</u>

We reviewed the supporting documentation and the prudence of these pro forma plant additions. We find that the pro forma additions are reasonable and prudent, because they will help extend the life of the water and wastewater facilities, decrease water loss, improve water quality, and address several other maintenance issues. Commission staff requested a statement of why each addition is necessary and copies of all invoices and support documentation for the plant additions. According to the Utility, only the emergency interconnect with Sanford (Seminole water) is not moving forward at this time. As such, we have removed the \$65,000 related to this plant addition. Furthermore, we made adjustments to reflect the difference between actual costs and estimated pro forma plant. Our adjustments to plant resulted in corresponding flow-through adjustments to accumulated depreciation, depreciation expense,

property taxes,<sup>22</sup> and accumulated deferred income taxes (ADITs). Our adjustments are shown in the following tables.

Table 17

Plant Adjustments			
Pro Forma Projects	MFR Plant	Plant	Plant Adj.
<u>Pasco</u>			
Summertree - Well 13 Hydro Tank Replacement	\$70,000	\$57,430	(\$12,570)
Retirement for Hydro Tank	(13,741)	(11,839)	1,902
Orangewood/Buena Vista - Water Dist. Plant Replacement	300,000	239,757	(60,243)
Retirement for Water Dist. Plant	(46,638)	(32,027)	14,611
Total Pasco	<u>\$309,621</u>	<u>\$253,322</u>	<u>(\$56,299)</u>
<u>Pinellas</u>			
Lake Tarpon - Replacement of a Portion of Dist. System	\$300,000	\$295,125	(\$4,875)
Retirement for Dist. System	(49,563)	(47,904)	1,659
Total Pinellas	<u>\$250,437</u>	<u>\$247,221</u>	<u>(\$3,216)</u>
<u>Seminole</u>			
Park Ridge - Water Dist. and Valve Replacement	\$280,000	\$286,110	\$6,110
Retirement for Water Dist. and Valve	(35,860)	(44,339)	(8,479)
Park Ridge - WTP Electrical Equipment Replacement	80,000	78,600	(1,400)
Retirement for Park Ridge WTP Electrical Equipment	(10,191)	(10,013)	178
Park Ridge - Emergency Interconnect with Sanford	65,000	0	(65,000)
Ravenna Park WTP Electrical Equipment Replacement	100,000	80,700	(19,300)
Retirement for Ravenna Park - WTP Electrical Equipment	(12,739)	(10,280)	2,459
Phillips - WTP Electrical Equipment Replacement	80,000	55,400	(24,600)
Retirement for Phillips WTP Electrical Equipment	(10,191)	(7,057)	3,134
Weathersfield - WTP Electrical Equipment Replaced	65,000	41,339	(23,661)
Retirement for Weathersfield WTP Electrical Equipment	(8,280)	(5,266)	3,014
Weathersfield - Valve Installation	<u>50,000</u>	<u>49,000</u>	<u>(1,000)</u>
Total Seminole Water	<u>\$642,739</u>	<u>\$514,194</u>	<u>(\$128,545)</u>
Ravenna Park - Force Main Replacement	\$80,000	\$77,226	(\$2,774)
Retirement for Ravenna Park Force Main	(22,765)	(21,975)	790
Ravenna Park - Reduction of I&I	<u>155,765</u>	<u>154,750</u>	<u>(1,015)</u>
Total Seminole Wastewater	<u>\$213,000</u>	<u>\$210,001</u>	<u>(\$2,999)</u>
TOTAL PLANT	<u>\$1,415,797</u>	<u>\$1,224,738</u>	<u>(\$191,059)</u>

<sup>22</sup> No property tax was included in the Utility's pro forma plant calculations. In an effort to accurately reflect the impact of the pro forma plant additions, we calculated a property tax adjustment for each addition.

Table 18

Accumulated Depreciation Adjustments			
<u>Pro Forma Projects</u>	<u>MFR Acc. Dep.</u>	<u>Acc. Dep.</u>	<u>Acc. Dep. Adj.</u>
<u>Pasco</u>			
Summertree - Well 13 Hydro Tank Replacement	(\$1,892)	(\$1,641)	\$251
Retirement for Hydro Tank	13,741	11,839	(1,902)
Orangewood/Buena Vista - Water Dist. Plant Replacement	(8,134)	(7,060)	1,074
Retirement for Water Dist. Plant	<u>46,638</u>	<u>32,027</u>	<u>(14,611)</u>
Total Pasco	<u>\$50,353</u>	<u>\$35,165</u>	<u>(\$15,188)</u>
<u>Pinellas</u>			
Lake Tarpon - Replacement of a Portion of Dist. System	(\$8,401)	(\$8,285)	\$116
Retirement for Dist. System	<u>49,563</u>	<u>47,904</u>	<u>(1,659)</u>
Total Pinellas	<u>\$41,162</u>	<u>\$39,619</u>	<u>(\$1,543)</u>
<u>Seminole</u>			
Park Ridge - Water Dist. and Valve Replacement	(\$6,823)	(\$7,211)	(\$388)
Retirement for Water Dist. and Valve	35,860	44,339	8,479
Park Ridge WTP Electrical Equipment Replacement	(4,000)	(3,930)	70
Retirement for Park Ridge WTP Electrical Equipment	10,191	10,013	(178)
Park Ridge - Emergency Interconnect with Sanford	(1,857)	0	1,857
Ravenna Park - WTP Electrical Equipment Replacement	(5,000)	(4,035)	965
Retirement for Ravenna Park WTP Electrical Equipment	12,739	10,280	(2,459)
Phillips - WTP Electrical Equipment Replacement	(4,000)	(2,770)	1,230
Retirement for Phillips WTP Electrical Equipment	10,191	7,057	(3,134)
Weathersfield - WTP Electrical Equipment Replaced	(3,250)	(2,067)	1,183
Retirement for Weathersfield WTP Electrical Equipment	8,280	5,266	(3,014)
Weathersfield - Valve Installation	<u>(1,163)</u>	<u>(1,400)</u>	<u>(237)</u>
Total Seminole Water	<u>\$51,168</u>	<u>\$55,542</u>	<u>\$4,374</u>
Ravenna Park - Force Main Replacement	(\$2,667)	(\$2,574)	\$93
Retirement for Ravenna Park Force Main	22,765	21,975	(790)
Ravenna Park - Reduction of I&I	<u>(3,461)</u>	<u>(3,439)</u>	<u>22</u>
Total Seminole Wastewater	<u>\$16,637</u>	<u>\$15,962</u>	<u>(\$675)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>\$159,320</u>	<u>\$146,288</u>	<u>(\$13,032)</u>

Table 19

Depreciation Expense Adjustments			
Pro Forma Projects - Plant	MFR Dep. Exp.	Dep. Exp.	Dep. Exp. Adj.
<u>Pasco</u>			
Summertree - Well 13 Hydro Tank Replacement	\$1,892	\$1,641	(\$251)
Retirement for Hydro Tank	(371)	(338)	33
Orangewood/Buena Vista - Water Dist. Plant Replacement	8,134	7,060	(1,074)
Retirement for Water Dist. Plant	(1,534)	(1,022)	512
Total Pasco	<u>\$8,121</u>	<u>\$7,340</u>	<u>(\$781)</u>
<u>Pinellas</u>			
Lake Tarpon - Replacement of a Portion of Dist. System	\$8,401	\$8,285	(\$116)
Retirement for Dist. System	(1,712)	(1,671)	41
Total Pinellas	<u>\$6,689</u>	<u>\$6,614</u>	<u>(\$75)</u>
<u>Seminole</u>			
Park Ridge - Water Dist. and Valve Replacement	\$6,823	\$7,211	\$388
Retirement for Water Dist. and Valve	(949)	(1,486)	(537)
Park Ridge - WTP Electrical Equipment Replacement	4,000	3,930	(70)
Retirement for Park Ridge WTP Electrical Equipment	(510)	(501)	9
Park Ridge - Emergency Interconnect with Sanford	1,857	0	(1,857)
Ravenna Park - WTP Electrical Equipment Replacement	5,000	4,035	(965)
Retirement for Ravenna Park WTP Electrical Equipment	(637)	(514)	123
Phillips - WTP Electrical Equipment Replacement	4,000	2,770	(1,230)
Retirement for Phillips WTP Electrical Equipment	(510)	(353)	157
Weathersfield - WTP Electrical Equipment Replaced	3,250	2,067	(1,183)
Retirement for Weathersfield WTP Electrical Equipment	(414)	(263)	151
Weathersfield - Valve Installation	1,163	1,400	237
Total Seminole Water	<u>\$23,073</u>	<u>\$18,296</u>	<u>(\$4,778)</u>
Ravenna Park - Force Main Replacement	\$2,667	\$2,574	(\$93)
Retirement for Ravenna Park Force Main	(759)	(733)	27
Ravenna Park - Reduction of I&I	3,461	3,439	(22)
Total Seminole Wastewater	<u>\$5,369</u>	<u>\$5,280</u>	<u>(\$88)</u>
TOTAL DEPRECIATION EXPENSE	<u>\$43,252</u>	<u>\$37,530</u>	<u>(\$5,722)</u>

Table 20

Property Tax Adjustments			
<u>Pro Forma Projects</u>	<u>MFR Prop. Tax</u>	<u>Prop. Tax</u>	<u>Prop. Tax Adj.</u>
<u>Pasco</u>			
Summertree - Well 13 Hydro Tank Replacement	\$0	\$873	\$873
Orangewood/Buena Vista - Water Dist. Plant Replacement	<u>0</u>	<u>3,641</u>	<u>3,641</u>
Total Pasco	<u>\$0</u>	<u>\$4,514</u>	<u>\$4,514</u>
<u>Pinellas</u>			
Lake Tarpon - Replacement of a Portion of Dist. System	<u>\$0</u>	<u>\$4,936</u>	<u>\$4,936</u>
Total Pinellas	<u>\$0</u>	<u>\$4,936</u>	<u>\$4,936</u>
<u>Seminole</u>			
Park Ridge - Water Dist. and Valve Replacement	\$0	\$4,115	\$4,115
Park Ridge - WTP Electrical Equipment Replacement	0	1,102	1,102
Park Ridge - Emergency Interconnect with Sanford	0	0	0
Ravenna Park - WTP Electrical Equipment Replacement	0	1,131	1,131
Phillips - WTP Electrical Equipment Replacement	0	777	777
Weathersfield - WTP Electrical Equipment Replaced	0	579	579
Weathersfield - Valve Installation	<u>0</u>	<u>702</u>	<u>702</u>
Total Seminole Water	<u>\$0</u>	<u>\$8,407</u>	<u>\$8,407</u>
Ravenna Park - Force Main Replacement	\$0	\$1,101	\$1,101
Ravenna Park - Reduction of I&I	<u>0</u>	<u>2,233</u>	<u>2,233</u>
Total Seminole Wastewater	<u>\$0</u>	<u>\$3,334</u>	<u>\$3,334</u>
TOTAL PROPERTY TAX	<u>\$0</u>	<u>\$21,191</u>	<u>\$21,191</u>

Based on the information above, we find that the appropriate pro forma plant additions are \$1,014,737 for water and \$210,001 for wastewater. This results in an incremental decrease of \$188,060 for water and decrease of \$2,999 for wastewater from the amounts requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments shall be made to decrease accumulated depreciation by \$12,357 for water and \$675 for wastewater. Depreciation expense shall be increased by \$5,634 for water and \$88 for wastewater. In addition, pro forma property taxes shall be increased by \$17,857 for water and \$3,334 for wastewater. Based on the additional pro forma plant and changes in depreciation stated above, \$270,409 of ADITs are created. We have included this amount in the capital structure shown in Schedule No. 1. Pro forma plant adjustments, excluding ADITs, are included in Table 21 below:

Table 21

County	Plant		Accum. Dep.		Dep. Expense		Prop. Tax	
	Water	W/water	Water	W/water	Water	W/water	Water	W/water
Pasco	(\$56,299)	\$0	(\$15,188)	\$0	(\$780)	\$0	\$4,514	\$0
Pinellas	(3,216)	0	(1,543)	0	(76)	0	4,936	0
Seminole	(128,545)	(2,999)	4,374	(675)	(4,778)	(88)	8,407	3,334
Total	(\$188,060)	(\$2,999)	(\$12,357)	(\$675)	(\$5,634)	(\$88)	\$17,857	\$3,334

**VII. Used and Useful Percentages**

The Utility has fourteen water systems in this docket. Crescent Heights and Davis Shores in Orange County purchase potable water from the Orlando Utilities Commission and Orange County. The other twelve systems in Pasco, Pinellas, and Seminole Counties have water plants that produce potable water. Six of these systems received minimal amounts of potable water during the test year via emergency interconnects with other utilities.

UIF has four wastewater systems in this proceeding. The Summertree and Orangewood systems in Pasco County purchase bulk wastewater treatment from Pasco County, while the Ravenna Park and Weathersfield systems in Seminole County purchase bulk wastewater from the cities of Sanford and Altamonte Springs.

**A. Used and Useful (U&U)**

In its MFRs, the Utility did not include U&U adjustments for any of its water or wastewater systems. In the Utility’s last rate case, in Order No. PSC-10-0585-PAA-WS, we found all of the water and wastewater plants to be 100 percent U&U. That finding was consistent with earlier rate cases, where in Order Nos. PSC-07-0505-SC-WS and PSC-03-1440-FOF-WS, we also found all of the water and wastewater systems to be 100 percent U&U.<sup>23</sup>

All of the Utility’s systems, since the last rate case, either have lost customers, or have not experienced significant growth. Consistent with the last rate case, we find the water and wastewater systems for Orange, Pasco, Pinellas, and Seminole Counties are 100 percent U&U because none of the systems are oversized and the service areas are substantially built out.

**B. Excessive Unaccounted for Water (EUW)**

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. The rule provides that to determine whether adjustments to plant and operating expenses, such as chemical, electrical, and purchased water costs are

<sup>23</sup>See Order Nos. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

necessary, this Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. According to the MFRs, during the test year the Utility had 8 of the 14 systems with unaccounted for water greater than 10 percent, including Crescent Heights (11.1 percent) in Orange County, Orangewood (18.9 percent) and Summertree (10.5 percent) in Pasco County; Lake Tarpon (24.0 percent) in Pinellas County; Bear Lake (12.8 percent), Phillips (22.8 percent), Ravenna Park (12.4 percent), and Weathersfield (15.8 percent) all in Seminole County.

For Crescent Heights and Weathersfield, customer meter inaccuracy is suspected as the cause of EUW. The Utility indicated it has replaced over 10 percent of the customer meters and will continue the project in an effort to reduce EUW for these systems. The Utility has a pro-forma project for Orangewood, which includes replacing galvanized pipe water mains and associated water laterals as well as replacing over 470 customer meters. The Utility believes this project will reduce the water loss. For Summertree, the Utility believes it is not economically worthwhile to pursue any action because the EUW has decreased from its last rate case and the amount of EUW is very small. The Utility also has a pro forma project for Lake Tarpon, which includes replacing all the remaining galvanized pipe water mains and water laterals along with relocating meters to the nearest lot line to reduce theft. A system survey will be completed to identify irrigation wells and possible cross connections.

For Bear Lake, the Utility reported there is no evidence of any significant problems. The Utility has advised its staff to securely close all blow-off valves after flushing. In Phillips, the EUW was attributed to a malfunctioning well meter. The meter has been sent to an independent facility for evaluation and the results are not available at this time.

For Ravenna Park, over 40 percent of the customer meters have been replaced; however, this action has not significantly improved the EUW. Ultimately, the well meter was found to be the source of the EUW. A new meter was installed and is measuring with an accuracy of 99.49 percent. Based on the foregoing, we find that no adjustments shall be made for EUW.

### C. Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of used and useful plant, this Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical, electrical, and purchased wastewater treatment costs are also considered necessary.

We reviewed the flows from the Ravenna Park wastewater system in Seminole County. It appears that this system was sending more wastewater to be treated than expected based on the amount of water billed to its customers. This finding is considered a possible indication of excessive I&I. The Utility's MFRs indicates an estimated excessive I&I at 33.02 percent for Ravenna Park or 8,743,065 gallons in excess I&I during the test year.

In the Utility's last rate case, it was determined that the Ravenna Park wastewater system in Seminole County had 40.79 percent excessive I&I resulting in an \$87,662 reduction in purchased wastewater treatment. As a pro forma plant addition for 2011, the Utility allocated \$155,765 towards the correction of the I&I situation at Ravenna Park. The description of the project was to clean and video inspect 3,012 linear feet of the eight inch vitrified clay pipe gravity sewer main. The results of the project were predicted to show a reduction of the average flow by approximately 19,000 gpd and reduce the excessive I&I. The project was completed in November and December of 2012; however, the Utility reported that a bulk meter experienced a failure and could not be replaced until March 2013. Accurate results of the I&I situation at Ravenna Park will not be known until the Utility has 12 full months of data.

We agree with the Utility's calculations that show excessive I&I reduced to 33.02 percent for Ravenna Park. Consistent with the last rate case, purchased wastewater expense for Ravenna Park (Seminole County) was \$193,520, and therefore shall be reduced by \$63,900 (\$193,520 x 33.02 percent) as referenced in Seminole County's Schedule No. 3-C.

#### D. Summary

We find that UIF's water plants, water transmission and distribution systems, and wastewater collection systems shall be considered 100 percent U&U. No adjustment shall be made for EUW for any of the Utility's water systems. A 33.02 percent adjustment to purchased wastewater treatment expense for Ravenna Park shall be made to reflect the Utility's excessive I&I. Accordingly, purchased wastewater expense shall be decreased by \$63,900 for Seminole County – Wastewater.

### **VIII. Working Capital Allowance**

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance (working capital). The balance sheet approach generally defines working capital as current assets and deferred debits that are utility-related and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility-related and upon which a utility does not already pay a return.

In its filing, the Utility used the balance sheet approach to calculate interim working capital, which is appropriate for a Class A utility. The calculated total company working capital was \$755,640, which was allocated to each of UIF's systems based on ERCs as of December 31, 2011.

It is our practice to include one-half of the approved amount of rate case expense from prior cases and one-half of the approved amount from the instant case in the working capital calculation for Class A water and wastewater utilities.<sup>24</sup> The Utility included \$543,462 in its

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<sup>24</sup> See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company; PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.; and PSC-97-

working capital calculation for deferred rate case expense. In UIF's last rate case, we approved total rate case expense of \$303,552.<sup>25</sup> Consistent with the Utility's last rate case and our practice, one-half of the total rate case expense, or \$151,776, shall be included in working capital.<sup>26</sup> As discussed later in this Order, the rate case expense is \$426,558 for the current rate case. Therefore, one-half of the total current rate case expense, or \$213,279, shall be included in working capital.

Accordingly, the appropriate deferred rate case expense is \$365,055 (\$151,776 + \$213,279). As such, deferred rate case expense shall be reduced by \$178,407 (\$365,055 - \$543,462). The \$178,407 reduction results in a working capital allowance of \$577,233. This amount shall be allocated to each UIF system, consistent with the Utility's MFRs. The following table shows the working capital allowance by county and type of service.

Table 22

<u>County</u>	<u>Working Cap. Per ERC</u>	<u>Comm. Adjustment</u>	<u>Comm. Adjusted</u>
Orange – Water	\$24,201	(\$5,256)	\$18,945
Pasco – Water	233,736	(50,628)	183,108
Pasco – Wastewater	92,181	(19,956)	72,225
Pinellas – Water	34,870	(7,578)	27,292
Seminole – Water	210,184	(45,488)	164,696
Seminole – Wastewater	<u>111,517</u>	<u>(24,137)</u>	<u>87,380</u>
Total	<u>\$706,689</u> <sup>27</sup>	<u>(\$153,043)</u> <sup>28</sup>	<u>\$553,645</u> <sup>29</sup>

### **IX. Rate Bases for the 2011 Test Year**

We have calculated UIF's water and wastewater rate bases by system and by county using the Utility's MFRs with adjustments as ordered in the preceding issues. The appropriate rate bases for the UIF systems for the test year ended December 31, 2011, are shown in Table 23.

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1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

<sup>25</sup> See Order No. PSC-10-0585-PAA-WS, p. 30.

<sup>26</sup> See Order No. PSC-10-0585-PAA-WS, p. 19.

<sup>27</sup> This amount does not reflect \$48,951 of working capital attributable to Marion County water and wastewater.

<sup>28</sup> This amount does not reflect the \$25,365 adjustment to working capital attributable to Marion County water and wastewater.

<sup>29</sup> This amount does not reflect the adjusted working capital of \$23,588 for Marion County water and wastewater.

Table 23

<u>County</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Orange	\$186,897	N/A	\$186,897
Pasco	\$3,212,941	\$648,809	\$3,861,750
Pinellas	\$602,222	N/A	\$602,222
Seminole	\$3,091,656	\$2,112,241	\$5,203,897

**X. Cost of Capital**

**A. Return on Equity (ROE)**

The ROE included in the Utility’s filing is 10.36 percent. Based on the current leverage formula and an equity ratio of 49.47 percent, the appropriate ROE is 10.38 percent.<sup>30</sup> An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes. In the case of Pasco County’s Summertree water system, we have determined that the quality of the water is unsatisfactory. Therefore, until the Utility demonstrates that the water quality has been restored to a point where it is deemed satisfactory by this Commission, the ROE shall be 9.38 percent with a range of plus or minus 100 basis points with the effect of such reductions in ROE applied to the Summertree water system.

**B. Weighted Average Cost of Capital**

The Utility included the following weighted average cost of capital for the systems in each county in its MFRs.

Table 24

<u>County</u>	<u>Weighted Avg. Cost of Capital, As Filed</u>
Orange	7.29%
Pasco	7.63%
Pinellas	7.81%
Seminole	7.76%

We have revised the cost rate for common equity proposed by the Utility. As discussed, the appropriate ROE is 10.38 percent. We also find adjustments to accumulated deferred taxes are appropriate, resulting in a deferred tax credit of \$270,663.

<sup>30</sup> See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 130006-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.

According to Affiliate Audit Finding No. 5, the Utility allocated rate base to equity and long-term debt based on the consolidated capital structure of Utilities, Inc. However, the total equity balances used did not agree with the audited financial statements. According to the Utility, the inadvertent error was made because balances before the completion of the external audit were used in the filing. The audit finding included a revised 13-month average equity balance of \$176,219,021, which reflects an adjustment of \$2,810,248. The Utility agreed with the revised equity amount.

Based on the foregoing we find the appropriate weighted average cost of capital for all UIF systems for purposes of setting rates in this proceeding is 7.34 percent, as shown on Schedule No. 1-A.

### **XI. Net Operating Income**

#### **A. Miscellaneous Test Year Revenue Adjustments**

During the test year, the Utility charged \$15 for approximately 300 initial connections and normal reconnections. UIF's tariff approved charge for initial connections and normal reconnections is \$21 each. As a result, the Utility under-collected miscellaneous revenues during the test year. Miscellaneous revenues shall be imputed to reflect the tariff approved charge.

Based on the above, miscellaneous revenues shall be increased as shown below to reflect the appropriate test year revenues.

Table 25

<u>System</u>	<u>Increase</u>
Orange County – Water	\$192
Pasco County – Water	\$1,900
Pasco County – Wastewater	\$101
Pinellas County – Water	\$174
Seminole County – Water	\$2,860
Seminole County – Wastewater	\$455

#### **B. Contested Audit Adjustments**

Audit reports for UIF and UI affiliate transactions were released on July 12, 2013. The Utility's responses were received on August 1, and August 2, 2013, respectively. The only remaining contested adjustments relate to the affiliate transactions audit, specifically Audit Finding Nos. 2, 3, 5, 8 (partial), 9, and 10. Only Finding No. 8 will be discussed here, while the other audit findings are addressed elsewhere in this Order.

Concerning Affiliate Audit Finding No. 8, Commission audit staff identified \$125,347 in total company adjustments. When allocated to UIF, these adjustments reduced total water expenses by approximately \$3,232 and total wastewater expenses by approximately \$1,242. The Utility disagreed with Commission staff's total company adjustments for the Windstream Communications invoices (\$10,444), tax return review fees (\$8,800), lobbying expenses (\$1,222), and a portion of the costs related to code violations (\$7,219). The total amount of these contested audit adjustments allocated to UIF's systems is approximately \$990.

We agree with the Utility's position that expenses related to Windstream Communications and the tax return review fees should be included in O&M expenses. According to the Utility's audit response, Windstream is used by the company for their MPLS network, toll-free numbers, a line for the Pahrump office, and local service in the Northbrook, Altamonte Springs, and Charlotte offices. With regard to the tax return review fees, we find it is reasonable to assume some level of tax return review and associated expense will continue going forward.

Concerning the costs related to violations and the lobbying expenses identified in the audit report, we agree with the audit finding. As such, we find that these expenses shall be removed from the Utility's expenses. With respect to legal bills, we conclude that the costs are unlikely to be recurring. Likewise, we find that the lobbying expenses identified in the audit shall be removed since we have traditionally disallowed lobbying expenses. The approved adjustments are shown in Table 26 below:

Table 26

<u>County</u>	<u>Adjustment</u>
Orange	(\$21)
Pasco - Water	(212)
Pasco - Wastewater	(85)
Pinellas	(33)
Seminole - Water	(191)
Seminole - Wastewater	(102)
Total	<u>(\$644)</u>

Accordingly, water expenses shall be reduced by \$21 for Orange County, \$212 for Pasco County, \$33 for Pinellas County, and \$191 for Seminole County. Wastewater expenses shall be reduced by \$85 for Pasco County, and \$102 for Seminole County.

C. Adjustments to Salaries, Wages, Pensions, Benefits and Payroll Taxes

In its MFRs, the Utility reflected the following water and wastewater salaries and wages, and employee pensions and benefits:

Table 27

Adj. Test Year Amounts (MFR Schedules B-7 and B-8)				
County	Salary & Wages Employees	Salary & Wages Officers, Etc.	Pensions & Benefits	Total
Orange – Water	\$20,549	\$2,661	\$5,563	\$28,773
Pasco – Water	237,179	25,434	53,227	315,840
Pasco – Wastewater	93,538	10,031	20,992	124,561
Pinellas – Water	33,571	3,786	7,902	45,259
Seminole – Water	153,380	22,928	47,907	224,215
Seminole – Wastewater	<u>81,379</u>	<u>12,164</u>	<u>25,417</u>	<u>118,960</u>
Total	<u>\$619,596</u>	<u>\$77,004</u>	<u>\$161,008</u>	<u>\$857,608</u>

The adjusted test year amounts shown above include the following pro forma salaries and pensions and benefits adjustments for 2012 and scheduled 2013 pay increases:

Table 28

Pro Forma Salary & Wages and Pensions & Benefits				
County	Salary & Wages Employees	Salary & Wages Officers, Etc.	Pensions & Benefits	Total
Orange - Water	\$1,697	\$220	\$459	\$2,376
Pasco - Water	19,584	2,100	4,394	26,078
Pasco - Wastewater	7,723	828	1,733	10,284
Pinellas - Water	2,772	313	652	3,737
Seminole - Water	12,664	1,893	3,955	18,512
Seminole - Wastewater	<u>6,719</u>	<u>1,004</u>	<u>2,098</u>	<u>9,821</u>
Total	<u>\$51,159</u>	<u>\$6,358</u>	<u>\$13,291</u>	<u>\$70,808</u>

According to Affiliate Audit Finding No. 9, UI allocates costs monthly to the divisions. In prior Utilities, Inc. subsidiary rate cases, the parent company provided schedules by employee. In these schedules, the parent company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on the employees' duties. The schedule was then compared to the costs recorded in the ledger by division and the difference adjusted in the filings. In this case, Commission audit staff determined that only pro forma adjustments were made to the filing for 2012 and April 2013 salary increases.

As part of its review, Commission staff auditors requested the Utility prepare schedules for this case using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. Since the schedule already included the salaries after the 2012 and April 2013 salary increases, Commission audit staff recommended that no pro forma salary adjustment was necessary. As a result, Commission audit staff adjusted its findings to reduce payroll, benefits, and taxes totaling \$142,298 for water and \$56,067 for wastewater.<sup>31</sup>

The Utility provided updated salary work papers to both to Commission audit staff and again in response to the audit report where it disagreed with Affiliate Audit Finding No. 9. These salary work papers reflected decreased amounts from what was requested in the Utility's MFR filing. The Utility believes the revised amounts provided in response to the audit report should be the salary expense allowed here. According to the Utility, the revised amounts reflect actual salaries as of May 2013, with no proposed pro forma increase for raises or merit adjustments.<sup>32</sup> As a result of the revision, the Utility reduced payroll, benefits, and taxes totaling \$149,248 for water and \$61,440 for wastewater.

We evaluated the reasonableness of the requested compensation levels by comparing the salary with the average salary levels for comparable positions found in the 2012 Water Utility Compensation Survey (CS) published by the American Water Works Association (AWWA). We were able to compare the duties and responsibilities of twenty corporate positions in order to examine the reasonableness of their salary levels with those contained in the AWWA's CS. Those positions are identified in the table below.

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<sup>31</sup> See Document No. 04060-13, Auditor's Report: Utilities, Inc. Audit of Affiliate Transactions, filed July 16, 2013, pp. 29-31.

<sup>32</sup> See Document No. 05729-13, filed September 26, 2013, p. 11.

Table 29

<u>UI Title</u>	<u>AWWA Title</u>
Controller	Accounting Manager/Controller
Corporate Accounting Manager	Accounting Manager/Controller
Senior Corporate Accountant	Senior Accountant
Senior Financial Analyst	Senior Accountant
Financial Planning & Analysis Manager	Accounting Manager/Controller
Director of Human Resources	Top HR Executive
Chief Operating Officer	Top Administration Executive
Chief Financial Officer	Top Finance Executive
Chief Regulatory Officer	No comparable position in CS
Vice President General	No comparable position in CS
President & CEO	Top Executive
Vice President Corporate Development	Top Administration Executive
IT Manager	Inf. Services Manager
Regional Vice-President	Top O&M Executive
Regulatory Accounting Manager	Accounting Manager/Controller
Regulatory Accountant II (3 positions)	Accountant
Director of Governmental Affairs	Top Public Affairs Executive
Regional Director	Top Engineering Executive

We note that not every Utility position matched a job category covered in the CS. Positions that could not be matched were not included in our analysis. However, for the Chief Regulatory Officer and Vice President General, we used the AWWA Top Executive salary of \$121,948 and reduced it by 5 percent since there was not a corresponding position in the CS. We find that a 5-percent reduction from the Top Executive salary was appropriate and reasonable since these positions would normally have fewer corporate duties and responsibilities than that of the top executive.

Recently, we have used the maximum salary limit in the CS as a guide for determining corporate salaries.<sup>33</sup> We have previously used the mid-point salary level in the CS to determine the appropriate employee salary where a utility failed to include any salary or an insufficient salary.<sup>34</sup> The difference between the AWWA CS maximum salary and the annual salary was then allocated based on the allocation type. Of the 20 positions we reviewed, 17 positions fell into the WSC (3.55 percent allocation) and three fell into the Regional allocation type (5.89 percent allocation), resulting in a salary reduction of \$38,667. Corresponding adjustments shall

<sup>33</sup> See Order No. PSC-13-0187-PAA-WS, pp. 18-19, issued May 2, 2013, in Docket No. 120152-WS, In re: Application for increase in water and wastewater rates in Orange County by Pluris Wedgefield, Inc.

<sup>34</sup> See Order Nos. PSC-10-0380-PAA-WU, issued June 15, 2010, in Docket No. 090477-WU, In re: Application for -assisted rate case in Polk County by Alturas Utilities. L.L.C.; PSC-10-0126-PAA-WU, issued March 3, 2010, in Docket No. 090230-WU, In re: Application for -assisted rate case in St. Johns County by Camachee Island Company. Inc. d/b/a Camachee Cove Yacht Harbor Utility; PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for -assisted rate case in Lake County by CWS Communities LP; PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 070601-WU, In re: Application for -assisted rate case in Pasco County by Orangeland Water Supply; and PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In re: Application for -assisted rate case in Marion County by County-Wide Utility Co., Inc.

also be made to reduce payroll tax expense and employee benefits in the amount of \$2,532 and \$2,958, respectively.

Based on the discussion at the Agenda Conference, we find that additional reductions of \$81,471 to salaries, \$33,684 to employee benefits, and \$51,378 to payroll taxes are necessary. These amounts represent the incremental difference between the AWWA adjustments discussed above and the revised amounts provided by the Utility in response to the affiliate audit.

The table below shows how these adjustments are allocated to each system:

Table 30

<u>County</u>	<u>Salaries &amp; Wages</u>	<u>Pensions &amp; Benefits</u>	<u>Payroll Taxes</u>	<u>Total</u>
Orange – Water	(\$5,949)	(\$1,339)	(\$531)	(\$7,820)
Pasco – Water	(46,058)	(10,121)	(17,952)	(74,131)
Pasco – Wastewater	(18,164)	(3,991)	(7,078)	(29,235)
Pinellas – Water	(5,057)	(1,487)	(56)	(6,600)
Seminole – Water	(29,342)	(12,595)	(18,761)	(60,698)
Seminole – Wastewater	<u>(15,568)</u>	<u>(6,682)</u>	<u>(9,954)</u>	<u>(32,204)</u>
Total	<u>(\$120,138)</u>	<u>(\$36,216)</u>	<u>(\$54,334)</u>	<u>(\$210,688)</u>

D. Summary

In summary, salaries and wages expense shall be reduced by \$86,406 for water and \$33,732 for wastewater. Corresponding adjustments shall also be made to reduce pensions and benefits by \$25,543 for water and \$10,673 for wastewater, and reduce payroll taxes by \$37,302 for water and \$17,032 for wastewater.

**XII. Rate Case Expense**

UIF requested \$578,071 for current rate case expense in its MFRs. Commission staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On September 26, 2013, the Utility submitted a revised estimate of rate case expense through completion of the PAA process of \$505,921.

Table 31

	MFR B-10 Estimated	Actual as of 9/26/13	Additional Estimated	Revised Total
Legal Fees	\$117,250	\$37,173	\$9,895	\$47,068
Accounting Consultant Fees	254,550	268,488	13,600	282,087
Engineering Consultant Fees	16,950	15,150	3,000	18,150
WSC In-house Fees	165,121	136,215	7,353	143,568
Filing Fee	4,000	0	0	0
WSC Travel	3,200	0	0	0
WSC FedEx/Misc.	12,000	0	12,000	12,000
Cust. Notices and Postage	5,000	1,547	1,500	3,047
Total	\$578,071	\$458,573	\$47,348	\$505,921

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. The Utility bears the burden of justifying its requested costs.<sup>35</sup> Furthermore, we have 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.<sup>36</sup> As such, we have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find several adjustments are necessary to the revised rate case expense estimate.

#### A. Legal Fees

The first adjustment relates to the Utility's legal fees. The Utility included in its MFRs \$117,250 in legal fees to complete the rate case. The Utility provided invoices through July 31, 2013, showing actual expenses associated with the rate case totaling \$37,173 and estimated \$9,895 to complete the rate case. According to the invoices, the law firm of Sundstrom, Friedman & Fumero, LLP (SFF) billed the Utility \$630 related to the correction of MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>37</sup> Accordingly, we find that \$630 shall be removed as duplicative and unreasonable rate case expense.

We also order an adjustment to the \$9,000 filing fee paid by SFF in this case. On April 8, 2013, SFF filed a letter with this Commission requesting a refund of \$1,000 that was overpaid at

<sup>35</sup> See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>36</sup> See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

<sup>37</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

the time of filing. It is our understanding that this request is being processed and will be sent to SFF. In order to avoid double recovery, the actual expenses shall be reduced by \$1,000.

Additionally, we order an adjustment to the estimated cost to complete this case. SFF's estimate to complete included fees for 26.5 hours at \$350/hour. and additional costs totaling \$620. We find that most of the estimated hours to complete appear reasonable, except for 15 hours requested to "prepare for and attend Agenda Conference, discuss Agenda with client and review the PAA Order." In the Utility's last rate case, the approved amount of time for the same task was 12 hours.<sup>38</sup> We find that 12 hours in the instant case is appropriate given the complexity involving multiple systems in 4 counties. As a result, we find a reduction of \$1,050 ( $\$350 \times 3$ ) is appropriate. Based on the above, SFF's legal fees shall be reduced by a total of \$2,680 ( $\$630 + \$1,000 + \$1,050$ ).

#### B. Accounting Consultant Fees

The second adjustment relates to Milian, Swain and Associates, Inc.'s (MS&A) actual and estimated fees of \$282,088, which was comprised of \$268,488 in actual costs and \$13,600 in estimated fees to complete the rate case as of June 30, 2013.

In regard to MS&A's actual expenses, Commission staff reviewed the supporting documentation and found that many of the invoices referenced hours related to rollovers/roll-forwards, as well as, preparation of MFRs for Marion County. Based on Commission staff's review of MS&A's invoices, approximately 149 hours of Senior Accountant time, or \$22,350 (149 hrs. x \$150/hr.), was spent preparing Marion County's MFRs. An additional 17 hours of the Principal's time, or \$3,400 (17 hrs. x \$200/hr.), was spent reviewing Marion County's MFRs. We note that no MFRs were filed by the Utility for Marion County in this proceeding. As such, we find that approximately \$25,750 ( $\$22,350 + \$3,400$ ), related to the preparation of Marion County's MFRs shall be removed from rate case expense.

We find that an additional adjustment to actual expense is necessary to remove the time and expense related to rollover/roll-forward adjustments made by MS&A. Based on the activity descriptions provided in the invoices, we identified approximately 222.25 hours (204 hrs. for the Senior Accountant and 18.25 hrs. for the Principal) related roll-forwards. In several sister utility dockets, we disallowed the additional time spent making "roll-forward" adjustments to account for regulatory accounting and prior Commission-ordered adjustments.<sup>39</sup> We find that the Utility's ratepayers shall not be required to bear the added cost of making these adjustments as part of rate case expense. Accordingly, we find that MS&A's actual expenses shall be decreased by \$30,600 for the Senior Accountant (204 hrs. x \$150/hr.) and \$3,650 (18.25 hrs. x \$200/hr.) for the Principal. The total adjustment related to roll-forwards is \$34,250 ( $\$30,600 + \$3,650$ ).

<sup>38</sup> See Order No. PSC-10-0585-PAA-WS, p. 27.

<sup>39</sup> See Order Nos. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, pp. 14-15; and PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., p. 27.

MS&A estimates that a total of 88 hours are needed to complete the case. According to MS&A's summary, the consultant estimates 27 hours to "assist with responses to formal and informal data requests from Commission staff and OPC, including updates to Rate Case Expense," 22 hours to "assist with responses to Audit Requests, review Audit Reports and discuss with client noting potential discrepancies, assist with responses to audits," 33 hours to "review recommendation, conference with client regarding recommendation, evaluate issues and calculate potential impact on revenue requirement," and 6 more hours to "review PAA Order, conference with client, wrap up files."

In short, we find the number of hours estimated for accounting consultant fees is excessive and unreasonable. MS&A has estimated 27 hours to respond to data request responses and provide updates to rate case expense. While four additional data requests were sent after MS&A's summary was assembled, we note that responding to these data requests would require minimal time from the accounting consultant. In fact, it is likely that these data requests would be more appropriately addressed by WSC In-House employees. In addition, most of the audit findings were agreed to,<sup>40</sup> or were carry-over adjustments from previous rate cases. No additional updates to rate case expense were received from this consultant. As such, we find that a total of 13.5 hours shall be sufficient to address any remaining tasks. Accordingly, we order a reduction to audit related hours of 13.5 hours (12.5 hours for M. Bravo, 1 hour for D. Swain).

MS&A included 22 hours in connection with audit requests, responses, and audit report review. We note that there would be little work remaining related to any responses to audit requests as described in MS&A's summary, especially since Commission audit staff's reports were issued on July 12, 2013. We also find that the bulk of any follow-up responses would likely be addressed by WSC In-House employees. As such, we find that a total of 11 hours shall be sufficient to address any remaining audit-related tasks. Accordingly, we order a reduction of 11 hours (10 hours for M. Bravo, 1 hour for D. Swain).

MS&A included 39 hours to complete from the filing of Commission staff's recommendation to the completion of the PAA process. This consultant has worked with UIF, and other UI systems, on numerous dockets before this Commission through the years. The consultant's familiarity with the Utility and this Commission led us to find that the request is excessive and unreasonable. Absent additional support, we find that a total of 19.5 hours is an ample amount of time to review Commission staff's recommendation and this PAA Order, as well as consult with their client in the instant case. Accordingly, we order a reduction to audit related hours of 19.5 hours (17.5 hours for M. Bravo, 2 hours for D. Swain).

In summary, we are reducing the associate accountant's estimated hours to complete from 80 to 40, and the accounting firm partner's estimated hours to complete from 8 to 4. As such, we find that an additional \$6,000 (40 hrs. x \$150/hr.) shall be removed for M. Bravo and \$800 (4 hrs. x \$200/hr.) be removed for D. Swain. Accordingly, the accounting consultant fees shall be reduced by \$66,800 (\$25,750 + \$34,250 + \$6,000 + \$800).

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<sup>40</sup> The UIF Audit Report contained seven audit findings. All seven findings were agreed to by the Utility, with UIF providing an alternate adjustment for Audit Finding No. 1. The Affiliate Audit Report contained 11 audit findings. UI agreed to four findings outright and portions of at least two more audit findings.

C. Engineering Consultant Fees

The third adjustment relates to the Utility’s engineering consulting fees. The Utility included \$16,950 for engineering fees in its MFRs to complete the rate case. UIF provided invoices through August 30, 2013, showing actual expenses associated with the rate case totaling \$15,150 and estimated \$3,000 to complete the rate case.

Commission staff reviewed the supporting documentation and found that many of the invoices containing charges from April – August 2012 referenced Marion County, either specifically, or included it under “All Counties.” No MFRs were filed by the Utility for Marion County in this proceeding. As such, we find that the consultant’s hours related to Marion County shall be removed from rate case expense. Where invoices referenced “Marion, Pasco, and Pinellas Counties,” we find the costs shall be split between them based on the number of systems. Under this scenario, a total of three water and two wastewater systems are represented, with Marion having one of each. In those instances, we removed two-fifths, or 40 percent, of the hours for Marion County. Likewise, if the invoice referenced “All Counties,” there would be a total of five water and three wastewater systems. Marion would still have one of each, or one-fourth of the total systems. The table below shows our adjustments to remove time for work on Marion County’s MFRs and corresponding adjustment to expense.

Table 32

<u>Date</u>	<u>Invoice Entry</u>	<u>Hours Billed</u>	<u>Ratio</u>	<u>Adj.</u>	<u>Rate</u>	<u>Comm. Adj.</u>
4/23/2012	Marion, Pasco, Pinellas	19	0.40	7.60	\$150	\$1,140
4/30/2012	Marion, Pasco, Pinellas	5	0.40	2.00	\$150	300
5/1/2012	Marion, Pasco, Pinellas	18	0.40	7.20	\$150	1,080
6/2/2012	All Counties	5	0.25	1.25	\$150	188
6/4/2012	All Counties	20.5	0.25	5.13	\$150	769
6/11/2012	All Counties	10	0.25	2.50	\$150	375
8/6/2012	All Counties	3	0.25	0.75	\$150	113
8/27/2012	All Counties	<u>5</u>	0.25	<u>1.25</u>	\$150	<u>188</u>
Total		<u>85.5</u>		<u>28</u>		<u>\$4,151</u>

According to the invoices, Management & Regulatory Consultants, Inc. (MRC) billed the Utility \$825 (\$150 x 5.5 hrs.) to assist with responses related to UAW deficiencies. As discussed above, we have previously disallowed rate case expense associated with correcting deficiencies because of duplicate filing costs. Accordingly, we find that \$825 shall be removed.

The estimate to complete the rate case included \$3,000 for 20 hours to assist with and respond to data requests and new information. MRC’s last invoice, dated August 30, 2013, includes time for assisting with responses to Commission staff’s Third and Fourth Data Requests. One additional data request was sent by Commission staff on August 27, 2013, that addressed the possibility of consolidating wastewater rates for Pasco County. Since no additional data requests were sent after the date of MRC’s invoice, we find no additional time

should be required of the engineering consultant to respond to potential data requests. As such, we find that all estimated hours to complete for the engineering consultant shall be removed, which results in a reduction of \$3,000 (\$150 x 20 hrs.). Accordingly, the engineering consultant fees shall be reduced by a total of \$7,976 (\$4,151 + \$825 + \$3,000).

#### D. WSC In-House Employee Fees

The fourth adjustment relates to the WSC In-House Employee fees. In its revised rate case expense estimate, the Utility requested \$143,568 for expenses related to WSC In-House Employees to process the instant case. UIF reported that the total number of actual hours incurred by WSC In-House Employees as of September 9, 2013, was 2,896, and estimated an additional 135 hours to complete the rate case, for a total of 3,031 hours.

In Affiliate Audit Finding No. 10, Commission audit staff removed the In-House Employees from rate case expense because they were already included in test-year expense. The Utility objected to this finding in its affiliate audit response on the basis that its revised salaries account for capitalized time as a reduction to salaries prior to any allocation. We have previously disallowed WSC In-House Employee fees in several dockets involving sister companies.<sup>41</sup> However, in this case it appears that given the Utility's proposed adjustment, salaries are not being double recovered, and capitalized time through rate case expense should be allowed. Accordingly, we find that the hours associated with WSC In-House Employee fees of \$143,568 related to the instant rate case shall be allowed.

#### E. Filing Fee

The Utility included \$4,000 in its MFR Schedule B-10 for the filing fee. In all other filings related to rate case expense, the filing was listed as \$0 for both the actual and estimates to complete. We note that according to the documentation provided by SFF, the filing fee (\$9,000) was paid as part of the legal fees. As such, the filing fee is addressed as part of our findings pertaining to legal fees in this Order.

#### F. WSC Travel Expenses

In its MFRs, UIF estimated \$3,200 for travel. However, the Utility provided no documentation to support this expense. Furthermore, based on several previous UI rates cases, it is our experience that for PAA rate cases, UI does not send a representative from its Illinois office to attend our Commission Conference. Therefore, \$3,200 of rate case expense associated with WSC Travel Expense shall be disallowed.

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<sup>41</sup> See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110534-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

#### G. WSC FedEx Expenses

The fifth adjustment relates to WSC expenses for FedEx Corporation and other miscellaneous costs. In its revised rate case expense estimate, the Utility requested \$12,000 for these items, but did not provide any support of these expenses. Therefore, the rate case expense shall be decreased by \$12,000.

#### H. Customer Notices and Postage

Our final rate case expense adjustment relates to customer notices and postage. In its revised rate case expense schedule, UIF reflected no actual charges incurred for customer noticing and postage and \$5,000 as an estimate to complete. In an earlier request, the Utility represented that it had incurred \$1,547 in actual expenses and an additional \$1,500 in estimated costs for a total of \$3,047. UIF is responsible for sending four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The interim notice and the initial notice were combined in this docket.

We find that despite the lack of support provided for the \$5,000 estimate to complete, that amount will likely not begin to cover the cost of providing these notices to thousands of customers. We estimate the cost of postage for the notices at approximately \$6,139 (6,001 customers x \$0.34 pre-sorted rate x 3 notices).<sup>42</sup> We estimate envelope costs at \$900 (6,001 customers x \$0.05 per envelope x 3 notices) and copying costs at \$6,102 (\$0.10 per copy x 61,022 pages).<sup>43</sup> Based on these components, the total cost for customer notices and postage is \$13,141 (\$6,139 + \$900 + \$6,102). In the Utility's last rate case, UIF was allowed to recover \$13,064 for customer notices and postage.<sup>44</sup> We find that its calculated expense is reflective of the actual conditions in the instant docket while remaining comparable to the expense in the 2009 rate case. As such, we increase the revised estimate for customer notices and postage expense by \$10,094 (\$13,141 - \$3,047).

#### I. Conclusion

In summary, we find that UIF's requested rate case expense of \$505,921 shall be decreased by \$79,362. The appropriate total rate case expense is \$426,558. A breakdown of rate case expense is as follows:

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<sup>42</sup> Number of customers based on information provided by the Utility in MFR Schedule E-3. We used UI's presorted postage rate of \$0.341.

<sup>43</sup> The initial notice and interim notice were combined in the instant docket. The size of the combined notice (number of pages) varied depending on the system, ranging from four to seven pages. We anticipate that the final notice will be two pages.

<sup>44</sup> See Order No. PSC-10-0585-PAA-WS, p. 30.

Table 33

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Act. &amp; Est.</u>	<u>Comm. Approved Adj.</u>	<u>Comm. Approved Total</u>
Legal Fees	\$117,250	\$47,068	(\$2,680)	\$44,388
Accounting Consultant Fees	254,550	282,087	(66,800)	215,288
Engineering Consultant Fees	16,950	18,150	(7,976)	10,174
WSC In-House Fees	165,121	143,568	0	143,568
Filing Fee	4,000	0	0	0
WSC Travel	3,200	0	0	0
WSC FedEx/Misc.	12,000	12,000	(12,000)	0
Cust. Notices and Postage	5,000	3,047	10,094	13,141
Total	<u>\$578,071</u>	<u>\$505,921</u>	<u>(\$79,362)</u>	<u>\$426,558</u>

In its MFRs, the Utility requested total rate case expense of \$578,071. When amortized over four years, this represents an annual expense of \$144,518. The approved annual rate case expense of \$106,640 (\$426,558 divided by four) shall be recovered over four years, pursuant to Section 367.016, F.S. Therefore, annual rate case expense shall be adjusted as indicated below:

Table 34

<u>County</u>	<u>Requested RCE 4-Yr. Amortization</u>	<u>Comm. Approved 4-Yr. Amortization</u>	<u>Comm. Approved Adjustment</u>
Orange - Water	\$4,625	\$3,652	(\$973)
Pasco - Water	44,699	35,271	(9,428)
Pasco - Wastewater	17,631	13,910	(3,721)
Pinellas - Water	6,662	5,262	(1,400)
Seminole - Water	40,205	31,717	(8,488)
Seminole - Wastewater	21,331	16,828	(4,503)
Total	<u>\$135,153<sup>45</sup></u>	<u>\$106,640</u>	<u>(\$28,513)</u>

### XIII. Bad Debt Expense

The Utility recorded bad debt expense of \$43,457<sup>46</sup> for 2011. In numerous decisions, we have set bad debt expense using the 3-year average in electric,<sup>47</sup> gas,<sup>48</sup> and water and wastewater

<sup>45</sup> These amounts represent the amortized rate case expense included in the MFRs for these systems. The remaining \$9,365 (\$144,518 – \$135,153), is the portion originally allocated to Marion County's water and wastewater systems.

<sup>46</sup> The total amount includes \$549 and (\$16) for Marion County water and wastewater, respectively.

<sup>47</sup> 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, at 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

cases.<sup>49</sup> We 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 bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

The 3-year average was initially calculated using the bad debt expense reported in the Utility's annual reports for 2009, 2010, and 2011. However, we note that the bad debt expense for 2009 is an anomaly when compared to the bad debt expense included in the Utility's recent annual reports, as reflected in the following table.

Table 35

<u>Annual Report</u>	<u>Total Bad Debt Exp.</u>
2008	\$45,120
2009	\$92,018
2010	\$48,522
2011	\$41,501
2012	\$32,793

Consistent with our practice, bad debt expense shall be based on a 3-year average, as shown in the table below, using amounts from 2010, 2011, and 2012. The three-year average for the Pasco and Seminole wastewater systems resulted in a negative amount. We recognize that bad debt expense typically not negative. Thus, instead of using the negative amount, we set the average for these systems at \$0 for calculating the adjustment.

Table 36

<u>County</u>	<u>Test Year</u>	<u>3-year Avg.</u>	<u>Adjustment</u>
Orange – Water	\$5,098	\$4,433	(\$665)
Pasco – Water	9,923	14,894	4,971
Pasco – Wastewater	3,914	0	(3,914)
Pinellas – Water	343	356	13
Seminole – Water	15,450	20,660	5,210
Seminole – Wastewater	8,196	0	(8,196)
Total	<u>\$42,924</u>	<u>\$40,343</u>	<u>(\$2,581)</u>

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Company, at 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, at p. 48.

<sup>48</sup> 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., at 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, at pp. 30-31.

<sup>49</sup> See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42.

Based on the 3-year average calculation, UIF is expected to incur bad debt expense of \$40,343, which we find is representative of UIF's bad debt expense. As a result, UIF's bad debt expense shall be reduced as indicated in Table 37:

Table 37

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Orange	(\$665)	N/A
Pasco	\$4,971	(\$3,914)
Pinellas	\$13	N/A
Seminole	\$5,210	(\$8,196)

#### **XIV. Test Year Operations and Maintenance (O&M) Expenses**

We have reviewed the test year O&M expenses and examined invoices, canceled checks, and other supporting documentation. As such, we find several adjustments to the Utility's operating expenses are appropriate, as summarized below.

##### **A. Contractual Services – Engineering**

Based on information contained in Pasco wastewater's MFRs, \$539 in Contractual Services – Engineering expense was recorded by the Utility. We note that the Utility did not recover any engineering expense for Pasco wastewater in the last rate case.<sup>50</sup> Using amounts contained in the Utility's 2009, 2010, and 2011 Annual Reports, the three-year average for Pasco wastewater's engineering expense is actually \$5. As such, we find it is appropriate to reduce test year Contractual Services – Engineering expense for Pasco wastewater by \$534 (\$5 - \$539).

According to Seminole County's MFR Schedule B-7, Contractual Services – Engineering increased by approximately \$7,100 during the test year for a permitting change in water treatment method at Park Ridge. In response to a Commission staff data request, the Utility responded that the notation was made in error. According to the Utility, the entry shall in fact reflect the cost to have a registered professional engineer perform an interior and exterior inspection of each ground storage tank and hydropneumatic tank in Seminole County (13 tanks). Based on this information, we find that Seminole water's Contractual Services – Engineering expense shall be reduced by \$5,680 ( $\$7,100 \times 4/5$ ) to normalize the cost of the tank inspections, which occur every five years.

Seminole wastewater recorded \$3,780 in Contractual Services – Engineering expense for in the test year. In UIF's last rate case, we approved \$2,740 for the same expense.<sup>51</sup> However, based on amounts contained in the Utility's 2009, 2010, and 2011 Annual Reports, the three-year

<sup>50</sup> See Order No. PSC-10-0585-PAA-WS.

<sup>51</sup> Id.

average for engineering expense is actually \$6. As such, we find that is appropriate to reduce test year Contractual Services – Engineering expense for Seminole wastewater by \$3,774 (\$6 - \$3,780).

#### B. Contractual Services – Testing

Pasco County water recorded \$22,823 in this account for testing expense in the current test year. This represented a 57.36 percent increase over the test year used in the last rate case. Based on information received from the Utility, it appears that a large portion of the increase, \$8,178, was due to triennial testing that occurred in 2011, but not in 2008. According to the Utility, the Florida Department of Environmental Protection adjusted the timing of the testing cycles. We find that Pasco water's Contractual Services – Testing expense shall be reduced by \$5,452 ( $\$8,178 \times 2/3$ ) to normalize the cost of triennial testing, which occurs every three years.

#### C. Transportation Expense

In its MFRs, the Utility recorded transportation expense in Seminole County of \$18,464 for water and \$9,796 for wastewater. These amounts represent increases of 94.37 percent and 93.02 percent, respectively. In Orange County, UIF recorded transportation expense of \$2,147, an 84.62 percent increase. In response to a data request, the Utility contends that when MFRs were filed in 2009, there was only one vehicle that was more than 4 years old.<sup>52</sup> At the end of 2012, there were 18 vehicles more than 4 years old. The Utility asserted that as the fleet ages, repair costs increase exponentially. They stated that fuel prices have also risen by 12 percent during the same period.

We find the increase is excessive despite the additional information provided by the Utility, especially when viewed against the modest decreases for transportation expenses reflected in Pasco County and a small increase in Pinellas County.<sup>53</sup> Additionally, we note that transportation expenses actually decreased for each system between 2011 and 2012 according to the Utility's annual reports.<sup>54</sup> Given the size of the increase as recorded and the fact that transportation costs actually decreased in 2012, we find it is appropriate to use a three-year average to determine the appropriate amount of transportation expense for the systems in Orange and Seminole County. Using the transportation expense recorded in the 2009, 2010, and 2011 Annual Reports for each system, we calculated the following three-year averages:

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<sup>52</sup> See Document No. 05754-13, filed September 26, 2013, p. 12.

<sup>53</sup> Based on information contained in the MFRs, Pasco County transportation expense reflected a 2.69-percent decrease for water and a 2.41-percent decrease for wastewater. Pinellas County transportation expense reflected an 8.15 percent increase.

<sup>54</sup> Transportation expense decreased to \$1,991 for Orange water, \$16,993 for Seminole water, and \$8,994 based on information provided in the Utility's 2012 Annual Report.

Table 38

<u>Year</u>	<u>Orange Water</u>	<u>Seminole Water</u>	<u>Seminole Wastewater</u>
2009	\$1,460	\$12,582	\$6,619
2010	1,820	15,608	8,381
2011	<u>2,147</u>	<u>18,459</u>	<u>9,801</u>
Average	<u>\$1,809</u>	<u>\$15,550</u>	<u>\$8,267</u>

Using the three-year averages in Table 39, we order the following adjustments:

Table 39

<u>County</u>	<u>3-yr. Average</u>	<u>MFR Trans. Exp.</u>	<u>Adj.</u>
Orange – Water	\$1,809	\$2,147	(\$338)
Seminole – Water	\$15,550	\$18,464	(\$2,914)
Seminole – Wastewater	\$8,267	\$9,796	(\$1,529)

D. Miscellaneous Expense

During the test year, UIF Seminole County was charged non-sufficient funds (NSF) fees in four separate months, totaling \$194. We find that this is an avoidable expense and ratepayers shall not have to pay these penalties. Therefore, this account shall be reduced by \$127 for water and \$67 for wastewater to remove the NSF fees.

E. Summary

Based on adjustments set forth above, we are decreasing O&M expense by \$338 for Orange water, \$5,452 for Pasco water, \$534 for Pasco wastewater, \$8,721 (\$5,680 + \$2,914 + \$127) for Seminole water, and \$5,370 (\$3,774 + \$1,529 + \$67) for Seminole wastewater. Adjustments to O&M expense are shown on Schedule No. 3-C for each system.

**XV. Pro Forma O&M Expense**

In the Utility’s filing, UIF included pro forma adjustments for Salaries and Wages, Pensions and Benefits, Purchased Water, Purchased Wastewater Treatment, and Contractual Services – Testing. Pro forma adjustments are known and measurable changes that are anticipated to occur beyond the test year period. Each of the Utility’s requested pro forma adjustments is discussed below.

A. Salaries & Wages, Pensions & Benefits

UIF requested increases of \$57,517 for pro forma salaries and wages and \$13,291 for pro forma pension and benefits. We addressed the Utility's requested pro forma expenses for these issues in this Order under the section titled "Salaries, Wages, Pensions, Benefits and Payroll Taxes" below.

B. Purchased Water and Purchased Wastewater Treatment

UIF requested a total of \$834 for pro forma increases in purchased water for Seminole County from the City of Sanford, the City of Altamonte Springs Utilities, and Seminole County Water and Sewer. In addition, several smaller pro forma purchased water increases for Orange (\$289) and Pinellas County (\$65) were also included in the Utility's MFRs.

UIF also requested a total of \$24,525 for pro forma increases in purchased wastewater treatment for Seminole County. The MFRs included purchased wastewater treatment expenses of \$7,362 from the City of Altamonte Springs Utilities for the Weathersfield system, and \$17,163 from the City of Sanford for the Ravenna/Lincoln Heights system. In its Pasco County filing, UIF requested a pro forma increase of \$6,282 for increases in purchased wastewater treatment from Pasco County Utility Department for the Summertree and Orangewood/WisBar systems.

Commission staff verified the largest pro forma increases against information provided by the Utility in response to Commission audit staff data requests. We agree with the Utility's adjustments.

C. Contractual Services – Testing

The Utility increased its pro forma expenses for Contractual Services – Testing expense to adjust annual expenses for additional sampling and analysis mandated by the Stage 2 Disinfection Byproducts (DBP) Rule. The Utility requested pro forma testing increases of \$450 for Orange County, \$300 for Pasco County, \$150 for Pinellas County, and \$1,350 for Seminole County.

Per Rule 62-550.822, F.A.C., Initial Distribution System Evaluation and Stage 2 Disinfection Byproducts Requirements, the requirements contained in 40 C.F.R. Part 141, Subpart V (Sections 141.620 through 141.629) are adopted and incorporated by reference. Subpart V – Stage 2 DBP Requirements state that if the system is serving less than 10,000, then the testing must start by October 1, 2013 and will be required annually. Based on this information, we find that the increase for pro forma testing appears reasonable and no adjustment is necessary.

D. Summary

Based on the information provided by the Utility, no additional adjustments to pro forma O&M expense are necessary.

**XVI. Revenue Requirement**

Consistent with our findings concerning the underlying rate base, cost of capital, and operating income issues, we approve rates that are designed to generate pre-repression revenue requirements as shown in Table 40.

Table 40

<u>System</u>	<u>Test Year Revenues</u>	<u>(\$ Decrease)/ \$ Increase</u>	<u>Revenue Requirement</u>	<u>(% Decrease)/ % Increase</u>
Orange Water	\$116,050	\$10,565	\$126,615	9.10%
Pasco Water <sup>55</sup>	\$905,659	\$165,709	\$1,071,368	18.30%
Pasco Wastewater	\$527,690	(\$63,346)	\$464,343	(12.00%)
Pinellas Water	\$105,176	\$62,327	\$167,503	59.26%
Seminole Water	\$876,873	\$215,440	\$1,092,313	24.57%
Seminole Wastewater	\$816,716	\$70,033	\$886,479	8.57%

**XVII. Rates**

A. Rate Structure

Commission staff performed an analysis of the Utility's billing data in order to evaluate various Base Facilities Charge (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) produce the recommended revenue requirement excluding repression adjustments and miscellaneous revenues; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression, and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice. The systems in Pasco and Pinellas Counties are located in the Southwest Florida Water Management District (SWFWMD). The systems in Orange and Seminole County are located in the St. Johns River Water Management District (SJRWMD).

In the Utility's 2009 rate case, the rate structures were maintained from the previous rate case. However, an additional rate block was created due to the restriction of repression to non-

<sup>55</sup> The Pasco County water revenue requirement reflects the 100 basis point reduction to ROE discussed previously. The effect of the ROE reduction has been incorporated in the determination of rates for the Summertree customers.

discretionary usage for each water system. A discussion of the appropriateness of these rate structures in the instant case follows on a county-by-county basis.

#### B. Orange County Water System

The Utility's Orange County water system provides service to 297 residential and 3 general service customers. Approximately 4 percent of the residential customer bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand was 6,235 gallons per month, which is a 4 percent decrease since the Utility's last rate case.

Currently, the Utility's residential rate structure for its water system consists of a BFC and a 3 tier inclining block rate structure with a non-discretionary rate block. The non-discretionary threshold is set at 6,000 gallons which recognizes an average household size of 3.5 people. The rate blocks are: (1) 0-6,000 gallons (non-discretionary); (2) 6,001-8,000 gallons; (3) 8,001-16,000 gallons; and usage in excess of 16,000 gallons, with discretionary usage block rate factors of 1.00, 1.25, and 1.50, respectively. General service customers are billed based on a BFC and gallonage charge.

The existing rates were designed to generate 26 percent of the water revenue from the BFC. We find this allocation provides sufficient revenues to design rate blocks that will send pricing signals to customers using above non-discretionary usage. Therefore, we order that 26 percent of the revenues continue to be generated from the BFC.

The Utility's existing non-discretionary usage threshold, which is set at 6,000 gallons, is appropriate for the demographics of the customer base. Therefore, we find that the 6,000 gallon non-discretionary usage threshold shall be continued for residential customers. The discretionary usage rate blocks of: (1) 6,001-8,000 gallons; (2) 8,001-16,000 gallons; and (3) usage in excess of 16,000 gallons shall be continued, with discretionary usage block rate factors of 1.00, 1.50, and 1.75, respectively. This rate structure minimizes the rate increase at non-discretionary levels, but increases rates for customers in the higher usage levels. General service customers shall continue to be billed a BFC and gallonage charge. The rate structure for the Orange County water system is shown on Schedule 4-A.

#### C. Pasco County Water System

The Utility's customer base in Pasco County consists of 2,727 residential and 59 general service water customers. Approximately 27 percent of the residential customer bills during the test year had zero gallons indicating a seasonal customer base. The average residential water demand was 2,500 gallons per month, which is an 11 percent decrease since the Utility's last rate case.

Currently, the Utility's residential rate structure consists of a traditional BFC and gallonage charge with an additional gallonage charge for non-discretionary usage. The non-discretionary usage threshold is set at 3,000 gallons, which recognizes an average household size

of two people. The rate blocks are: 1) 0-3,000 gallons (non-discretionary) and 2) usage in excess of 3,000 gallons. General service customers are also billed based on a BFC and gallonage charge.

We find that 40 percent of the revenues from the Pasco County water system shall be generated from the BFC. We find that a non-discretionary usage threshold is not appropriate, which eliminates the need for a gallonage charge for non-discretionary usage. We authorize a BFC and uniform gallonage charge rate structure for both residential and general service customers. The rate structure for the Pasco County water system is shown on Schedule 4-A.

#### D. Pasco County Wastewater System

UIF operates two wastewater systems in Pasco County, Orangewood and Summertree. The Utility purchases bulk wastewater treatment from Pasco County and provides service to 1,215 residential, 3 multi-residential, and 5 general service customers. Approximately 26 percent of the residential customers' bills during the test year had zero gallons indicating a very seasonal customer base.

Currently, the residential rate structures for the Summertree and Orangewood wastewater systems consist of uniform BFCs for all meter sizes and gallonage charges with a 6,000 gallon cap for residential customers. There is also a flat rate for three multi-residential wastewater-only customers in the Orangewood system. General service customers for Summetree are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

The 12.04 percentage revenue decrease shall be applied as an across-the-board decrease to the existing Pasco County wastewater rates for both Orangewood and Summertree. The residential wastewater gallonage cap shall continue at 6,000 gallons.

#### E. Pinellas County Water System

There are 501 residential and 6 general service customers in the Pinellas County water system. The Utility's service area consists primarily of mobile homes. Approximately 28 percent of the residential customer bills during the test year had zero gallons indicating a very seasonal customer base. The customers' average monthly residential consumption is 2,100 gallons per month, which is a 16 percent decrease since the Utility's last rate case.

Currently, the Utility's residential rate structure consists of a traditional BFC and gallonage charge with an additional gallonage charge for non-discretionary usage. The non-discretionary usage threshold is set at 3,000 gallons, which recognizes an average household size of two people. The rate blocks are: 1) 0-3,000 gallons (non-discretionary) and 2) usage in excess of 3,000 gallons. General service customers' rate consists of a traditional BFC and gallonage charge.

The existing rates were designed to generate 45 percent of the revenues from the BFC. Due to the customers' low average monthly consumption, the seasonal nature of the customers, and the decrease in average consumption since the Utility's last rate case, an increase in the BFC would help ensure revenue sufficiency. However, we are not ordering an increase in the BFC allocation above 45 percent because the customers at the lower levels of consumption would experience a greater percentage increase than those customers at higher levels of consumption.

We find that a non-discretionary usage threshold is not appropriate, which eliminates the need for a gallonage charge for non-discretionary usage. Therefore the Utility shall use a BFC and uniform gallonage charge rate structure for both residential and general service customers. The rate structure for the Pinellas water system is shown on Schedule No. 4-A.

#### F. Seminole County Water System

Water service is provided to 2,554 residential and 14 general service customers in the Utility's Seminole County water system. Approximately 5 percent of the residential bills during the test year had zero gallons indicating a non-seasonal customer base. The average residential water demand was 5,679 gallons per month, which is an 11 percent decrease since the Utility's last rate case.

Currently, the Utility's water system's residential rate structure consists of a BFC and a three tier inclining block rate structure with a non-discretionary rate block. The non-discretionary threshold is set at 6,000 gallons which recognizes an average household size of 3.5 people. The rate blocks are: (1) 0-6,000 gallons (non-discretionary); (2) 6,001-8,000 gallons; (3) 8,001-16,000 gallons; and usage in excess of 16,000 gallons, with discretionary usage block rate factors of 1.00, 1.75, and 2.25, respectively. General service customers are billed based on a BFC and gallonage charge.

The existing rates were designed to generate 25 percent of the water revenue from the BFC. We find this allocation provides sufficient revenues to design rate blocks that will send pricing signals to customers usage at higher levels of consumption.

We find that a non-discretionary usage threshold is not appropriate, which eliminates the need for a gallonage charge for non-discretionary usage. Therefore, the appropriate rate blocks are: (1) 0-8,000 gallons; (2) 8,001-16,000 gallons; and (3) usage in excess of 16,000 gallons, with block rate factors of 1.00, 1.75, and 2.25, respectively. We find that 25 percent of the revenues shall continue to be generated from the BFC. This rate structure minimizes the rate increase at non-discretionary levels, but increases rates for customers in the higher usage levels. General service customers shall continue to be billed a BFC and gallonage charge. The rate structure for the Seminole County water system is shown on its Schedule 4-A.

#### G. Seminole County Wastewater System

The Utility's Seminole County wastewater system serves 1,441 residential and 7 general service customers. The Utility purchases bulk wastewater treatment from Sanford and

Altamonte Springs for the Ravenna Park/Lincoln Heights and Weathersfield systems in Seminole County. Approximately 4 percent of the wastewater residential customer bills during the test year had zero gallons indicating that the customer base is non-seasonal. The average water demand for wastewater customers was 5,032 gallons per month.

The existing rate structure for residential customers consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

The Utility's proposed BFC allocation is 26 percent. Typically, our practice is to set the BFC allocation to at least 50 percent due to the capital-intensive nature of wastewater plants. However, UIF purchases bulk wastewater service and does not have the same capital investment level as a system with a wastewater treatment plant. Therefore, we find that 25 percent of the revenues shall be generated by the BFC.

The Utility's existing residential gallonage cap is set at 10,000 per month. The gallonage cap recognizes that not all water used by residential customers is returned to the wastewater system. The cap reflects the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's wastewater billing analysis, the 6,000 gallon level is where approximately 80 percent of the water demand is captured. However, reducing the gallonage cap lowers the number of gallons used in the rate design and results in a significant increase to the gallonage charge. We find it is appropriate to gradually reduce the gallonage cap. Therefore, we order that the residential customers' rate structure consist of a uniform BFC for all meter sizes with a cap at 8,000 gallons. General service customers shall continue a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. This rate structure minimizes the rate increase at lower usage levels while maintaining revenue sufficiency. The rate design for the Seminole County wastewater system is shown on Schedule No. 4-C.

### **XVIII. Repression Adjustment**

A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption (i.e. outdoor irrigation, etc.) in response to price changes, while non-discretionary consumption (indoor uses such as cooking, cleaning, drinking, bathing, etc.) remains relatively unresponsive to price changes. Non-discretionary consumption is not subjected to a repression adjustment. Based on the historically observed ratio of the level of consumption to changes in price, we determined that repression adjustments to discretionary usage were necessary for Orange County.

#### **A. Orange County**

As discussed previously, the Orange County customer base is non-seasonal and the non-discretionary threshold is 6,000 gallons per month. Based on the customer billing data provided

by the Utility, approximately 32 percent of total residential consumption is discretionary usage and, therefore, subject to the effects of repression. The calculated repression adjustment shows that residential discretionary consumption can be expected to decline by 286,000 gallons. Therefore, we order a 1.25 percent reduction in total residential consumption and corresponding reductions of \$559 for purchased water and \$27 for regulatory assessment fees (RAFs).

B. Summary

We find that repression adjustments are appropriate for the water system in Orange County. The appropriate reduction in gallons and the corresponding reduction in expenses are shown in Table 41. We do not find any adjustment is required for the water systems in Pasco, Pinellas, or Seminole Counties.

Table 41

Water System	Gallon Reduction	Purchased Power	Chemicals	Purchased Water	RAFs	Total Expense Reduction
Orange	286,000	\$0	\$0	\$559	\$27	\$586

C. Appropriate Rates for Monthly Service

The appropriate post-repression revenue requirements for rate setting are as follows.

Table 42

System	Pre-Repression Revenue Requirement	Repression Reduction	Misc. Revenues	Post-Repression Revenue
Orange County - Water	\$126,615	\$586	\$3,410	\$122,619
Pasco County - Water <sup>56</sup>	\$1,071,368	\$0	\$14,345	\$1,057,023
Pinellas County - Water	\$167,503	\$0	\$1,138	\$166,365
Seminole County - Water	\$1,092,313	\$0	\$21,550	\$1,070,763

There is no repression for wastewater. The appropriate revenue requirements for rate setting are as follows.

Table 43

System	Total Revenue Requirement	Miscellaneous Revenues	Revenue Requirement for Rate setting
Pasco County - Wastewater	\$464,343	\$1,685	\$462,658
Seminole County - Wastewater	\$886,749	\$2,930	\$883,819

<sup>56</sup> The Pasco County water revenue requirement reflects the 100 basis point reduction to ROE discussed previously. The effect of the ROE reduction has been incorporated in the determination of rates for the Summertree customers.

Based on the above, the appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-E. These water rates are designed to produce the approved revenue requirements, excluding repression adjustments and miscellaneous revenues. These wastewater rates are designed to produce the approved revenue requirements less miscellaneous revenues.

As discussed previously, in the case of Pasco County's Summertree water system, we have determined that the quality of the water is unsatisfactory. Therefore, until the Utility demonstrates that the water quality has been restored to a point where it is deemed satisfactory by this Commission, the ROE shall be 9.38 percent (a 100 basis point reduction) with the effect of the reduction in ROE applied to the Summertree water system. We calculated the revenue impact of this adjustment to be \$23,115. In order to calculate the effect on Summertree water's rates, the \$447,588 revenue requirement applicable to Summertree was calculated by multiplying Pasco County water's total revenue requirement prior to the ROE reduction by the Summertree customer ratio (\$1,094,483 x 0.4089). The percentage decrease was then calculated by dividing the revenue impact associated with the ROE reduction by the Summertree portion of the revenue requirement (\$23,115 ÷ \$447,588), which resulted in a 5.16 percent reduction in water rates for Summertree's customers. The rates contained in Pasco County's Schedule No. 4-C reflect this reduction. The appropriate revenue requirements for rate setting for water and wastewater are as follows.

Table 44

<u>System</u>	<u>Revenue Requirement for Rate setting</u>
Orange County - Water	\$121,603
Pasco County - Water <sup>57</sup>	\$1,057,023
Pasco County - Wastewater	\$462,658
Pinellas County - Water	\$166,365
Seminole County - Water	\$1,070,763
Seminole County - Wastewater	\$883,819

The Utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

<sup>57</sup> The Pasco County water revenue requirement reflects the 100 basis point reduction to ROE discussed previously. The effect of the ROE reduction has been incorporated in the determination of rates for the Summertree customers.

**XIX. Miscellaneous Issues**

**A. Interim Rate Refunds**

By Order No. PSC-13-0332-PCO-WS (Interim Order), we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. UIF did not request rate relief for its Marion County water and wastewater systems. The Utility did not request interim rates for its wastewater system in Pasco County. In addition, no interim increase was applied to the Pinellas County water system. Table 45 shows the Commission-approved interim revenue requirements.

Table 45

<u>County</u>	<u>Adjusted Test Year Revenues</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Orange – Water	\$115,858	\$17,111	\$132,969	14.77%
Pasco – Water	\$903,759	\$46,325	\$950,084	5.13%
Seminole - Water	\$874,012	\$42,687	\$916,699	4.88%
Seminole - Wastewater	\$806,130	\$23,389	\$829,519	2.90%

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2011. UIF’s approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, Commission staff calculated revised interim revenue requirements 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 revenue requirements granted in the Interim Order for the test year are less than the revised revenue requirements for the interim collection period for Pasco County water and Seminole County water and wastewater. This results in no interim refunds for these systems. Table 46 shows the interim test year revenues and our recalculated interim period revenues.

Table 46

<u>County</u>	<u>Interim Test Year Revenues Granted</u>	<u>Recalculated Interim Period Revenue Requirement</u>
Pasco – Water	\$950,084	\$1,057,550
Seminole – Water	\$916,699	\$1,059,102
Seminole – Wastewater	\$829,519	\$869,128

However, the \$132,969 revenue requirement granted for Orange County water in the Interim Order for the test year is greater than the revised revenue requirement for the interim collection period of \$122,791. This results in a refund of 7.99 percent. The Utility shall refund 7.99 percent of water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking shall be released upon Commission staff's verification that the required refunds have been made.

B. Four Year Rate Reduction

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of \$128,236 of revenue associated with the amortization of rate case expense, the associated return on deferred rate case expense included in working capital, and the gross-up for RAFs. Using UIF's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases shown on Schedule Nos. 4-A through 4-E.

Table 47

<u>System</u>	<u>Comm. Approved Reduction</u>	<u>Comm. Approved Rate Reduction</u>
Orange County - Water	\$4,385	3.58%
Pasco County - Water	42,354	3.92%
Pasco County - Wastewater	16,704	3.61%
Pinellas County - Water	6,319	3.80%
Seminole County - Water	38,087	3.56%
Seminole County - Wastewater	20,208	2.29%
Total	<u>\$128,057</u>	

The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. UIF shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

C. Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, UIF shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water and wastewater rates of Utilities, Inc. of Florida is approved as set forth in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Utilities, Inc. of Florida is hereby authorized to charge the new rates as set forth herein and as approved in the body of this Order. It is further

ORDERED that until the Utilities Inc. of Florida can demonstrate to the satisfaction of this Commission that the secondary water quality for the Summertree water system is satisfactory, the Pasco County Summertree Water system shall be subject to a 100 basis point reduction in its ROE. It is further

ORDERED that Utilities Inc. of Florida shall undertake the five future actions identified in this Order to address the unsatisfactory water quality at its Summertree water system. Utilities Inc. of Florida shall coordinate its actions with the Office of Public Counsel to ensure compliance with this Order. It is further

ORDERED that Utilities, Inc. of Florida shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates. It is further

ORDERED that the tariffs shall be approved upon Commission staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Utilities, Inc. of Florida shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that the water and wastewater rates shall be reduced to remove rate case expense, grossed-up for regulatory assessment fees, which shall be amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall file revised tariff sheets and proposed customer notices for each system setting forth the lower rates and the reason for the reduction no later than thirty days prior to the actual date of the required rate reduction. It is further

ORDERED that the Utility shall refund 7.99 percent of water revenues collected under interim rates in Orange County, Florida. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Furthermore, the corporate undertaking shall be released upon Commission staff's verification that the required refunds have been made. It is further

ORDERED that the Utility shall provide proof of the date notices were given no less than ten days after the date of the notice. It is further

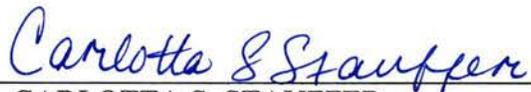
ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Utility shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved by Commission staff, and that the interim refund for Orange County water has been completed and verified by staff. Once these actions are complete, this docket shall be closed administratively, and the corporate undertaking shall be released.

By ORDER of the Florida Public Service Commission this 10th day of January, 2014.



CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MTL

DISSENT BY: COMMISSIONER LISA POLAK EDGAR

COMMISSIONER EDGAR dissents from the Commission's decision as provided.

I respectfully dissent on Issue Nos. 2, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 21, 22, and 23, with the following comments.

By law and by principle, a regulated utility service provider is entitled to recovery of reasonably and prudently incurred costs and the opportunity to earn a fair rate of return on utility investments.

As I have done over the years and will continue to do, I tried to address these issues with intellectual honesty and consistency. As such, I recognize that my vote on many of these items is largely symbolic. However, by my votes, I wanted to highlight my belief that there should not be a rate increase for the customers of the Summertree system at this time.

In a previous case with a different water utility, the Commission dealt with many issues similar to those the customers have described in this case, namely, issues of black water and odor. Although in that case it took a few years, significant improvements were accomplished with strong leadership from this Commission, continued involvement by OPC, and communication between customer and company representatives. I am hopeful that in this case the process outlined in this Order will come to the forefront, and that real progress and benefits will be realized.

This company does much good work, has a good product in many systems and many hard-working employees. Ratepayers deserve a good product and a good value for the money they pay for a monopoly service product. I remain concerned that the value proposition for customers of Summertree has not come to fruition.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this Order, our actions, except for the actions finding a partial interim refund is required, approving a four-year rate reduction and the requirement to adjust its books associated with our approved adjustments, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 31, 2014. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this Order shall become effective and final upon the issuance of a Consummating Order.

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

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

ATTACHMENT A

<u>County</u>	<u>System</u>	<u>Water Customers</u>	<u>Wastewater Customers</u>
Marion	Golden Hills/Crownwood	<u>528</u>	<u>76</u>
Total		<u>528</u>	<u>76</u>
Orange	Crescent Heights	254	
	Davis Shores	<u>45</u>	
Total		<u>299</u>	
Pasco	Orangewood/Wis-Bar/Buena Vista	1,704	158
	Summertree	<u>1,179</u>	<u>980</u>
Total		<u>2,883</u>	<u>1,138</u>
Pinellas	Lake Tarpon	<u>430</u>	
Total		<u>430</u>	
Seminole	Bear Lake	220	
	Crystal Lakes	176	
	Jansen	251	
	Little Wekiva	58	
	Oakland Shores	225	
	Park Ridge	100	
	Phillips	79	
	Ravenna Park/Lincoln Heights	340	240
	Weathersfield/Trail Wood/Oakland Hills	<u>1,145</u>	<u>1,136</u>
Total		<u>2,594</u>	<u>1,376</u>
COMPANY TOTAL		<u>6,734</u>	<u>2,590</u>

\*Source – Utilities, Inc. of Florida’s 2011 Annual Report

Utilities, Inc. of Florida - All Counties Capital Structure Test Year Ended 12/31/11							Schedule No. 1-A Docket No. 120209-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$175,493,134)	\$4,506,866	43.57%	6.65%	2.90%	
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	179,029,269	(2,810,248)	176,219,021	(171,806,824)	4,412,197	42.66%	10.38%	4.43%	
5 Customer Deposits	71,266	0	71,266	0	71,266	0.69%	2.00%	0.01%	
6 Investment Tax Credits	95,966	0	95,966	0	95,966	0.93%	0.00%	0.00%	
7 Deferred Income Taxes	<u>986,142</u>	<u>270,663</u>	<u>1,256,805</u>	<u>0</u>	<u>1,256,805</u>	<u>12.15%</u>	0.00%	<u>0.00%</u>	
8 <b>Total Capital</b>	<u>\$360,182,643</u>	<u>(\$2,539,585)</u>	<u>\$357,643,058</u>	<u>(\$347,299,958)</u>	<u>\$10,343,100</u>	<u>100.00%</u>		<u>7.34%</u>	
						<b>LOW</b>	<b>HIGH</b>		
						RETURN ON EQUITY	<u>9.38%</u>	<u>11.38%</u>	
						OVERALL RATE OF RETURN	<u>6.91%</u>	<u>7.77%</u>	

Utilities, Inc. of Florida - Orange County Capital Structure Test Year Ended 12/31/11							Schedule No. 1-B Docket No. 120209-WS	
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,893,683)	\$106,317	42.72%	6.65%	2.84%
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	179,029,269	0	179,029,269	(178,923,546)	105,723	42.48%	10.36%	4.40%
5 Customer Deposits	2,281	0	2,281	0	2,281	0.92%	6.00%	0.05%
6 Investment Tax Credits	2,955	0	2,955	0	2,955	1.19%	0.00%	0.00%
7 Deferred Income Taxes	<u>31,581</u>	<u>0</u>	<u>31,581</u>	<u>0</u>	<u>31,581</u>	<u>12.69%</u>	0.00%	<u>0.00%</u>
8 <b>Total Capital</b>	<u>\$359,066,086</u>	<u>\$0</u>	<u>\$359,066,086</u>	<u>(\$358,817,229)</u>	<u>\$248,857</u>	<u>100.00%</u>		<u>7.29%</u>

Utilities, Inc. of Florida - Pasco County Capital Structure Test Year Ended 12/31/11							Schedule No. 1-C Docket No. 120209-WS	
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$177,931,510)	\$2,068,490	44.76%	6.65%	2.98%
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	179,029,269	0	179,029,269	(176,972,330)	2,056,939	44.51%	10.36%	4.61%
5 Customer Deposits	30,739	0	30,739	0	30,739	0.67%	6.00%	0.04%
6 Investment Tax Credits	39,802	0	39,802	0	39,802	0.86%	0.00%	0.00%
7 Deferred Income Taxes	<u>425,306</u>	<u>0</u>	<u>425,306</u>	<u>0</u>	<u>425,306</u>	<u>9.20%</u>	0.00%	<u>0.00%</u>
8 <b>Total Capital</b>	<u>\$359,525,116</u>	<u>\$0</u>	<u>\$359,525,116</u>	<u>(\$354,903,840)</u>	<u>\$4,621,276</u>	<u>100.00%</u>		<u>7.63%</u>

Utilities, Inc. of Florida - Pinellas County Capital Structure Test Year Ended 12/31/11							Schedule No. 1-D Docket No. 120209-WS	
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,709,166)	\$290,834	45.94%	6.65%	3.05%
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	179,029,069	0	179,029,069	(178,740,059)	289,010	45.68%	10.36%	4.73%
5 Customer Deposits	3,288	0	3,288	0	3,288	0.52%	6.00%	0.03%
6 Investment Tax Credits	4,258	0	4,258	0	4,258	0.67%	0.00%	0.00%
7 Deferred Income Taxes	<u>45,503</u>	<u>0</u>	<u>45,503</u>	<u>0</u>	<u>45,503</u>	<u>7.19%</u>	0.00%	<u>0.00%</u>
8 <b>Total Capital</b>	<b><u>\$359,082,118</u></b>	<b><u>\$0</u></b>	<b><u>\$359,082,118</u></b>	<b><u>(\$358,449,225)</u></b>	<b><u>\$632,893</u></b>	<b><u>100.00%</u></b>		<b><u>7.81%</u></b>

Utilities, Inc. of Florida - Seminole County Capital Structure Test Year Ended 12/31/11							Schedule No. 1-E Docket No. 120209-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$2,482,275	\$0	\$2,482,275	\$0	\$2,482,275	45.63%	6.65%	3.03%	
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	2,468,413	0	2,468,413	0	2,468,413	45.37%	10.36%	4.70%	
5 Customer Deposits	30,341	0	30,341	0	30,341	0.56%	6.00%	0.03%	
6 Investment Tax Credits	39,287	0	39,287	0	39,287	0.72%	0.00%	0.00%	
7 Deferred Income Taxes	<u>419,804</u>	<u>0</u>	<u>419,804</u>	<u>0</u>	<u>419,804</u>	<u>7.72%</u>	0.00%	<u>0.00%</u>	
8 <b>Total Capital</b>	<u>\$5,440,120</u>	<u>\$0</u>	<u>\$5,440,120</u>	<u>\$0</u>	<u>\$5,440,120</u>	<u>100.00%</u>		<u>7.76%</u>	

Utilities, Inc. of Florida - Orange County Schedule of Water Rate Base Test Year Ended 12/31/11				Schedule No. 2-A Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$433,577	(\$22,559)	\$411,018	(\$112,465)	\$298,553
2 Land and Land Rights	106	0	106	0	106
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(220,690)	22,675	(198,015)	71,536	(126,479)
5 CIAC	46,479	(42,081)	4,398	(42,983)	(38,585)
6 Amortization of CIAC	22,171	(15,022)	7,149	27,208	34,357
7 CWIP	1	(1)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>24,201</u>	<u>24,201</u>	<u>(5,256)</u>	<u>18,945</u>
9 <b>Rate Base</b>	<u>\$281,644</u>	<u>(\$32,787)</u>	<u>\$248,857</u>	<u>(\$61,960)</u>	<u>\$186,897</u>

Utilities, Inc. of Florida - Orange County		Schedule No. 2-C
Adjustments to Rate Base		Docket No. 120209-WS
Test Year Ended 12/31/11		
Explanation	Water	
<u>Plant In Service</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)	\$4,760	
2 Phoenix Project adjustment. (Issue 3)	(3,430)	
3 Post-Agenda Audit Adjustments	<u>(113,795)</u>	
Total	<u>(\$112,465)</u>	
<u>Accumulated Depreciation</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$15,185)	
2 Phoenix Project adjustment. (Issue 3)	457	
3 Post-Agenda Audit Adjustments	<u>86,264</u>	
Total	<u>\$71,536</u>	
<u>CIAC</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$115)	
2 Post-Agenda Audit Adjustments	<u>(42,868)</u>	
Total	<u>(\$42,983)</u>	
<u>Accumulated Amortization of CIAC</u>		
1 Audit adjustments agreed to by Utility. (Issue 2)	\$3	
2 Post-Agenda Audit Adjustments	<u>27,205</u>	
Total	<u>\$27,208</u>	
<u>Working Capital</u>		
Reflect appropriate working capital allowance. (Issue 7)	<u>(\$5,256)</u>	

Utilities, Inc. of Florida - Orange County						Schedule No. 3-A	
Statement of Water Operations						Docket No. 120209-WS	
Test Year Ended 12/31/11							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$115,683</u>	<u>\$39,909</u>	<u>\$155,592</u>	<u>(\$39,542)</u>	<u>\$116,050</u>	<u>\$10,565</u> 9.10%	<u>\$126,615</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$89,748	\$10,875	\$100,623	(\$11,982)	\$88,641		\$88,641
3 Depreciation	23,397	(5,351)	18,046	(9,118)	8,928		8,928
4 Amortization	0	2,015	2,015	0	2,015		2,015
5 Taxes Other Than Income	5,683	4,467	10,150	(2,310)	7,840	475	8,315
6 Income Taxes	<u>18</u>	<u>6,587</u>	<u>6,605</u>	<u>(5,407)</u>	<u>1,198</u>	<u>3,797</u>	<u>4,995</u>
7 <b>Total Operating Expense</b>	<u>118,846</u>	<u>18,593</u>	<u>137,439</u>	<u>(28,817)</u>	<u>108,622</u>	<u>4,272</u>	<u>112,895</u>
8 <b>Operating Income</b>	<u>(\$3,163)</u>	<u>\$21,316</u>	<u>\$18,153</u>	<u>(\$10,725)</u>	<u>\$7,428</u>	<u>\$6,293</u>	<u>\$13,721</u>
9 <b>Rate Base</b>	<u>\$281,644</u>		<u>\$248,857</u>		<u>\$186,897</u>		<u>\$186,897</u>
10 <b>Rate of Return</b>	<u>(1.12%)</u>		<u>7.29%</u>		<u>3.97%</u>		<u>7.34%</u>

Utilities, Inc. of Florida - Orange County Adjustment to Operating Income Test Year Ended 12/31/11		Schedule No. 3-C Docket No. 120209-WS
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase.	(\$39,734)
2	To reflect appropriate misc. service charge and impute incremental increase. (Issue 11)	192
	Total	<u>(\$39,542)</u>
<u>Operation and Maintenance Expense</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	(\$2,146)
2	Reflect appropriate amount of computer maintenance expense. (Issue 3)	(550)
3	Contested audit adjustments. (Issue 12)	(21)
4	Reflect salary and benefits adjustment. (Issue 13)	(7,289)
5	Reflect appropriate rate case expense. (Issue 14)	(973)
6	Reflect appropriate bad debt expense. (Issue 15)	(665)
7	Reflect additional adjustment to O&M expense. (Issue 16)	(338)
	Total	<u>(\$11,982)</u>
<u>Depreciation Expense - Net</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$559
2	Phoenix Project adjustment. (Issue 3)	(343)
3	Post-Agenda Audit Adjustments	(9,334)
	Total	<u>(\$9,118)</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above.	(\$1,779)
2	Reflect salary and benefits adjustment. (Issue 13)	(531)
	Total	<u>(\$2,310)</u>

**Schedule No. 4-A**

<b>UTILITIES, INC. OF FLORIDA (ORANGE COUNTY)</b>			
<b>WATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Commission Approved Rate Structure and Rates</b>	
3 Tier Inclining Block Rate Structure Rate Factors 1.00, 1.25, and 1.50 BFC = 26%		3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.50, and 1.75 BFC =26%	
BFC	\$8.03	BFC	\$8.61
0-6 kgals (non-discretionary)	\$3.27	0-6 kgals (non-discretionary)	\$3.49
6-8 kgals	\$3.46	6-8 kgals	\$3.61
8-16 kgals	\$4.33	8-16 kgals	\$5.41
16+ kgals	\$5.18	16+ kgals	\$6.31
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$8.03	0	\$8.61
1	\$11.30	1	\$12.10
3	\$17.84	3	\$19.08
6	\$27.65	6	\$29.55
10	\$43.23	10	\$47.59
20	\$89.93	20	\$105.29

Utilities, Inc. of Florida - Orange County Water Monthly Service Rates Test Year Ended 12/31/11				Schedule No. 4-B Docket No. 120209-WS	
	Utility Current Rates	Commission Approved Interim	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"x3/4"	\$8.03	\$9.25	\$10.86	\$8.61	\$0.31
1"	\$20.10	\$23.15	\$27.18	\$21.53	\$0.77
1-1/2"	\$40.19	\$46.29	\$54.34	\$43.05	\$1.54
2"	\$64.31	\$74.08	\$86.95	\$68.88	\$2.47
3"	\$128.61	\$148.15	\$173.88	\$137.76	\$4.93
4"	\$200.96	\$231.49	\$271.70	\$215.25	\$7.71
6"	\$401.91	\$462.96	\$543.38	\$430.50	\$15.41
Charge per 1,000 Gallons - Residential					
0 - 6,000 gallons	\$3.27	\$3.77	\$4.42	\$3.49	\$0.12
6,001 - 8,000 gallons	\$3.46	\$3.99	\$4.68	\$3.61	\$0.13
8,001 - 16,000 gallons	\$4.33	\$4.99	\$5.85	\$5.41	\$0.19
Over 16,000 gallons	\$5.18	\$5.97	\$7.00	\$6.31	\$0.23
Charge per 1,000 Gallons - General Service	\$3.55	\$4.09	\$4.80	\$3.99	\$0.14
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$17.84	\$20.56	\$24.12	\$19.08	
6,000 Gallons	\$27.65	\$31.87	\$37.38	\$29.55	
10,000 Gallons	\$43.23	\$49.83	\$58.44	\$47.59	

Utilities, Inc. of Florida - Pasco County Schedule of Water Rate Base Test Year Ended 12/31/11				Schedule No. 2-A Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$4,778,638	\$257,354	\$5,035,992	(\$49,762)	\$4,986,230
2 Land and Land Rights	2,899	10,754	13,653	0	13,653
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,424,772)	(81,851)	(1,506,623)	(143,631)	(1,650,254)
5 CIAC	(595,036)	(12,627)	(607,663)	(672)	(608,335)
6 Amortization of CIAC	434,351	(115,271)	319,080	(30,540)	288,540
7 Working Capital Allowance	<u>0</u>	<u>233,736</u>	<u>233,736</u>	<u>(50,628)</u>	<u>183,108</u>
8 <b>Rate Base</b>	<b><u>\$3,196,080</u></b>	<b><u>\$292,095</u></b>	<b><u>\$3,488,175</u></b>	<b><u>(\$275,234)</u></b>	<b><u>\$3,212,941</u></b>

Utilities, Inc. of Florida - Pasco County Schedule of Wastewater Rate Base Test Year Ended 12/31/11				Schedule No. 2-B Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,329,707	\$929,024	\$2,258,731	(\$892,093)	\$1,366,638
2 Land and Land Rights	10,500	(1,546)	8,954	0	8,954
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(524,536)	(464,695)	(989,231)	451,179	(538,052)
5 CIAC	(531,736)	(55,519)	(587,255)	0	(587,255)
6 Amortization of CIAC	449,165	(99,443)	349,722	(23,424)	326,298
7 CWIP	10	(10)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>92,181</u>	<u>92,181</u>	<u>(19,956)</u>	<u>72,225</u>
9 <b>Rate Base</b>	<u>\$733,110</u>	<u>\$399,992</u>	<u>\$1,133,102</u>	<u>(\$484,293)</u>	<u>\$648,809</u>

Utilities, Inc. of Florida - Pasco County Adjustments to Rate Base Test Year Ended 12/31/11		Schedule No. 2-C Docket No. 120209-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$39,541	\$15,591	
2 Phoenix Project adjustment. (Issue 3)	(34,371)	(13,646)	
3 Reflect contractual services - engineering adjustment. (Issue 4)	1,367	0	
4 Reflect appropriate pro forma plant adjustments. (Issue 5)	(56,299)	0	
5 Post-Agenda Audit Adjustments	0	(894,038)	
Total	<u>(\$49,762)</u>	<u>(\$892,093)</u>	
<u>Accumulated Depreciation</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$132,972)	(\$52,432)	
2 Phoenix Project adjustment. (Issue 3)	4,591	1,805	
3 Reflect contractual services - engineering adjustment. (Issue 4)	(62)	0	
4 Reflect appropriate pro forma plant adjustments. (Issue 5)	(15,188)	0	
5 Post-Agenda Audit Adjustments	0	501,806	
Total	<u>(\$143,631)</u>	<u>\$451,179</u>	
<u>CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>(\$672)</u>	<u>\$0</u>	
<u>Accumulated Amortization of CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>(\$30,540)</u>	<u>(\$23,424)</u>	
<u>Working Capital</u>			
Reflect appropriate working capital allowance. (Issue 7)	<u>(\$50,628)</u>	<u>(\$19,956)</u>	

Utilities, Inc. of Florida - Pasco County Statement of Water Operations Test Year Ended 12/31/11						Schedule No. 3-A Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$833,526</u>	<u>\$398,145</u>	<u>\$1,231,671</u>	<u>(\$326,012)</u>	<u>\$905,659</u>	<u>\$165,709</u> 18.30%	<u>\$1,071,368</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$659,410	(\$76,065)	\$583,345	(\$75,591)	\$507,754		\$507,754
3 Depreciation	182,883	(18,733)	164,150	(479)	163,671		163,671
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	153,181	(32,277)	120,904	(28,088)	92,816	7,457	101,273
6 Income Taxes	<u>170</u>	<u>96,936</u>	<u>97,106</u>	<u>(79,091)</u>	<u>18,015</u>	<u>59,550</u>	<u>77,566</u>
7 <b>Total Operating Expense</b>	<u>995,644</u>	<u>(30,139)</u>	<u>965,505</u>	<u>(183,248)</u>	<u>782,257</u>	<u>67,007</u>	<u>849,264</u>
8 <b>Operating Income</b>	<u>(\$162,118)</u>	<u>\$428,284</u>	<u>\$266,166</u>	<u>(\$142,764)</u>	<u>\$123,402</u>	<u>\$98,702</u>	<u>\$222,104</u>
9 <b>Rate Base</b>	<u>\$3,196,080</u>		<u>\$3,488,175</u>		<u>\$3,212,941</u>		<u>\$3,212,941</u>
10 <b>Rate of Return</b>	<u>(5.07%)</u>		<u>7.63%</u>		<u>3.84%</u>		<u>6.91%</u>

Utilities, Inc. of Florida - Pasco County Statement of Wastewater Operations Test Year Ended 12/31/11						Schedule No. 3-B Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$477,751</u>	<u>\$92,636</u>	<u>\$570,387</u>	<u>(\$42,697)</u>	<u>\$527,690</u>	<u>(\$63,346)</u> -12.00%	<u>\$464,343</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$134,890	\$223,423	\$358,313	(\$33,004)	\$325,309		\$325,309
3 Depreciation	38,575	10,302	48,877	(8,245)	40,632		40,632
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	45,282	45,282	(9,001)	36,281	(2,851)	33,430
6 Income Taxes	<u>67</u>	<u>31,443</u>	<u>31,510</u>	<u>8,595</u>	<u>40,105</u>	<u>(22,765)</u>	<u>17,341</u>
7 <b>Total Operating Expense</b>	<u>173,532</u>	<u>310,450</u>	<u>483,982</u>	<u>(41,655)</u>	<u>442,327</u>	<u>(25,615)</u>	<u>416,712</u>
8 <b>Operating Income</b>	<u>\$304,219</u>	<u>(\$217,814)</u>	<u>\$86,405</u>	<u>(\$1,043)</u>	<u>\$85,362</u>	<u>(\$37,731)</u>	<u>\$47,631</u>
9 <b>Rate Base</b>	<u>\$733,110</u>		<u>\$1,133,102</u>		<u>\$648,809</u>		<u>\$648,809</u>
10 <b>Rate of Return</b>	<u>41.50%</u>		<u>7.63%</u>		<u>13.16%</u>		<u>7.34%</u>

Utilities, Inc. of Florida - Pasco County Adjustment to Operating Income Test Year Ended 12/31/11		Schedule No. 3-C Docket No. 120209-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$327,912)	(\$44,343)	
2 To reflect the appropriate service revenue based on billing determinants. (Issue 11)	0	1,503	
3 To reflect appropriate misc. service charge and impute incremental increase. (Issue 11)	<u>1,900</u>	<u>143</u>	
Total	<u>(\$326,012)</u>	<u>(\$42,697)</u>	
<u>Operation and Maintenance Expense</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$2,610)	(\$499)	
2 Reflect appropriate amount of computer maintenance expense (Issue 3)	(5,313)	(2,095)	
3 Reflect contractual services - engineering adjustment. (Issue 4)	(1,367)	(534)	
4 Contested audit adjustments. (Issue 12)	(212)	(85)	
5 Reflect salary and benefits adjustment. (Issue 13)	(56,179)	(22,156)	
6 Reflect appropriate rate case expense. (Issue 14)	(9,428)	(3,721)	
7 Reflect appropriate bad debt expense. (Issue 15)	4,971	(3,914)	
8 Reflect additional adjustment to O&M expense. (Issue 16)	<u>(5,452)</u>	<u>0</u>	
Total	<u>(\$75,591)</u>	<u>(\$33,044)</u>	
<u>Depreciation Expense - Net</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$3,677	\$1,463	
2 Phoenix Project adjustment. (Issue 3)	(3,437)	(1,365)	
3 Reflect contractual services - engineering adjustment. (Issue 4)	62	0	
4 Reflect appropriate pro forma plant adjustments. (Issue 5)	(781)	0	
5 Post-Agenda Audit Adjustments	<u>0</u>	<u>(8,343)</u>	
Total	<u>(\$479)</u>	<u>(\$8,245)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$14,671)	(\$1,921)	
2 Reflect contractual services - engineering adjustment. (Issue 4)	20	0	
3 Reflect appropriate pro forma plant adjustments. (Issue 5)	4,514	0	
4 Reflect salary and benefits adjustment. (Issue 13)	<u>(17,952)</u>	<u>(7,080)</u>	
Total	<u>(\$28,088)</u>	<u>(\$9,001)</u>	

**Schedule No. 4-A**

<b>UTILITIES, INC. OF FLORIDA (PASCO COUNTY)</b>			
<b>WATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Approved Rate Structure and Rates</b>	
BFC/gallonage rate structure BFC = 45%		BFC/gallonage rate structure BFC =40 %	
BFC	\$12.35	BFC	\$12.03
0-3 kgals (non-discretionary)	\$3.71	All gallons	\$5.51
3+ kgals	\$4.02		
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$12.35	0	\$12.03
1	\$16.06	1	\$17.54
3	\$23.48	3	\$28.56
6	\$35.54	6	\$45.09
10	\$51.62	10	\$67.13
20	\$91.82	20	\$122.23

Utilities, Inc. of Florida – Pasco County Monthly Water Rates Test Year Ended 12/31/11				Schedule No. 4-B Docket No. 120209-WS	
ORANGEWOOD	Utility Current Rates	Commission Approved Interim	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"X3/4"	\$12.35	\$12.99	\$16.89	\$12.03	\$0.47
3/4"	\$18.54	\$19.50	\$25.36	\$18.05	\$0.71
1"	\$30.89	\$32.50	\$42.25	\$30.08	\$1.18
1-1/2"	\$61.76	\$64.97	\$84.48	\$60.15	\$2.36
2"	\$98.82	\$103.96	\$135.17	\$96.24	\$3.77
3"	\$197.63	\$207.91	\$270.32	\$192.48	\$7.55
4"	\$308.80	\$324.86	\$422.38	\$300.75	\$11.79
6"	\$617.61	\$649.73	\$844.77	\$601.50	\$23.58
Charge per 1,000 Gallons - Residential					
0-3,000 Gallons	\$3.71	\$3.90	\$5.07	N/A	N/A
Over 3,000 Gallons	\$4.02	\$4.23	\$5.50	N/A	N/A
All Gallons	N/A	N/A	N/A	\$5.51	\$0.22
Charge per 1,000 Gallons – General Service					
	\$3.78	\$3.98	\$5.17	\$5.51	\$0.22
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$23.48	\$24.69	\$32.10	\$28.56	
6,000 Gallons	\$35.54	\$37.38	\$48.60	\$45.09	
10,000 Gallons	\$51.62	\$54.30	\$70.60	\$67.13	

Utilities, Inc. of Florida – Pasco County Monthly Water Rates Test Year Ended 12/31/11					Schedule No. 4-C Docket No. 120209-WS
SUMMERTREE	Utility Current Rates	Commission Approved Interim	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"X3/4"	\$12.35	\$12.99	\$16.89	\$11.41	\$0.45
3/4"	\$18.54	\$19.50	\$25.36	\$17.12	\$0.67
1"	\$30.89	\$32.50	\$42.25	\$28.53	\$1.12
1-1/2"	\$61.76	\$64.97	\$84.48	\$57.05	\$2.24
2"	\$98.82	\$103.96	\$135.17	\$91.28	\$3.58
3"	\$197.63	\$207.91	\$270.32	\$182.56	\$7.16
4"	\$308.80	\$324.86	\$422.38	\$285.25	\$11.18
6"	\$617.61	\$649.73	\$844.77	\$570.50	\$22.36
Charge per 1,000 Gallons - Residential					
0-3,000 Gallons	\$3.71	\$3.90	\$5.07	N/A	N/A
Over 3,000 Gallons	\$4.02	\$4.23	\$5.50	N/A	N/A
All Gallons	N/A	N/A	N/A	\$5.23	\$0.21
Charge per 1,000 Gallons – General Service					
	\$3.78	\$3.98	\$5.17	\$5.23	\$0.21
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$23.48	\$24.69	\$32.10	\$27.10	
6,000 Gallons	\$35.54	\$37.38	\$48.60	\$42.79	
10,000 Gallons	\$51.62	\$54.30	\$70.60	\$63.71	

Utilities, Inc. of Florida – Pasco County Monthly Wastewater Rates - Summertree Test Year Ended 12/31/11			Schedule No. 4-D Docket No. 120209-WS	
SUMMERTREE	Utility Current Rates	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential</u></b>				
Base Facility Charge - All Meter Sizes	\$14.49	\$15.71	\$12.75	\$0.46
Charge per 1,000 Gallons – Residential* *6,000 gallon cap	\$12.31	\$13.35	\$10.83	\$0.39
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$14.49	\$15.71	\$12.75	\$0.46
3/4"	\$21.74	\$23.58	\$19.12	\$0.69
1"	\$36.23	\$39.29	\$31.87	\$1.15
1-1/2"	\$72.45	\$78.57	\$63.73	\$2.30
2"	\$115.92	\$125.72	\$101.96	\$3.68
3"	\$231.82	\$251.41	\$203.91	\$7.36
4"	\$362.23	\$392.84	\$318.62	\$11.50
6"	\$724.47	\$785.69	\$637.24	\$23.00
Charge per 1,000 Gallons – General Service	\$16.34	\$17.72	\$14.37	\$0.52
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$51.42	\$55.76	\$45.24	
6,000 Gallons	\$88.35	\$95.81	\$77.73	
10,000 Gallons	\$88.35	\$95.81	\$77.73	

<b>Utilities, Inc. of Florida – Pasco County Monthly Wastewater Rates - Oranewood Test Year Ended 12/31/11</b>			<b>Schedule No. 4-E Docket No. 120209-WS</b>	
<b>ORANGEWOOD</b>	<b>Utility Current Rates</b>	<b>Utility Requested Final</b>	<b>Commission Approved Rates</b>	<b>4 Year Rate Reduction</b>
<b><u>Residential</u></b>				
Base Facility Charge - All Meter Sizes	\$11.16	\$12.10	\$9.82	\$0.35
Charge per 1,000 Gallons – Residential* *6,000 gallon cap	\$8.29	\$8.99	\$7.29	\$0.26
<b><u>Multi-Residential</u></b>				
Flat Rate	\$27.91	\$30.27	\$24.55	\$0.89
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$36.03	\$39.07	\$31.69	
6,000 Gallons	\$60.90	\$66.04	\$53.56	
10,000 Gallons	\$60.90	\$66.04	\$53.56	

Utilities, Inc. of Florida - Pinellas County Schedule of Water Rate Base Test Year Ended 12/31/11			Schedule No. 2-A Docket No. 120209-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$528,337	\$268,059	\$796,396	(\$2,625)	\$793,771
2 Land and Land Rights	6,258	0	6,258	0	6,258
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(160,642)	37,529	(123,113)	(20,668)	(143,781)
5 CIAC	(138,847)	(25,205)	(164,052)	0	(164,052)
6 Amortization of CIAC	82,734	0	82,734	0	82,734
7 Working Capital Allowance	<u>0</u>	<u>34,870</u>	<u>34,870</u>	<u>(7,578)</u>	<u>27,292</u>
8 <b>Rate Base</b>	<u>\$317,840</u>	<u>\$315,253</u>	<u>\$633,093</u>	<u>(\$30,871)</u>	<u>\$602,222</u>

Utilities, Inc. of Florida - Pinellas County Adjustments to Rate Base Test Year Ended 12/31/11		Schedule No. 2-C Docket No. 120209-WS
Explanation	Water	
<u>Plant In Service</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$5,891
2	Phoenix Project adjustment. (Issue 3)	(5,300)
3	Reflect appropriate pro forma plant adjustments. (Issue 5)	<u>(3,216)</u>
	Total	<u>(\$2,625)</u>
<u>Accumulated Depreciation</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	(\$19,831)
2	Phoenix Project adjustment. (Issue 3)	706
3	Reflect appropriate pro forma plant adjustments. (Issue 5)	<u>(1,543)</u>
	Total	<u>(\$20,668)</u>
<u>Working Capital</u>		
	Reflect appropriate working capital allowance. (Issue 7)	<u>(\$7,578)</u>

Utilities, Inc. of Florida - Pinellas County						Schedule No. 3-A	
Statement of Water Operations						Docket No. 120209-WS	
Test Year Ended 12/31/11							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$95,795</u>	<u>\$83,941</u>	<u>\$179,736</u>	<u>(\$74,560)</u>	<u>\$105,176</u>	<u>\$62,327</u> 59.26%	<u>\$167,503</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$63,729	\$13,292	\$77,021	(\$9,278)	\$67,743		\$67,743
3 Depreciation	18,945	3,360	22,305	(52)	22,253		22,253
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	3,273	9,599	12,872	1,525	14,397	2,805	17,201
6 Income Taxes	<u>25</u>	<u>18,038</u>	<u>18,063</u>	<u>(24,366)</u>	<u>(6,303)</u>	<u>22,398</u>	<u>16,096</u>
7 <b>Total Operating Expense</b>	<u>85,972</u>	<u>44,289</u>	<u>130,261</u>	<u>(32,172)</u>	<u>98,089</u>	<u>25,203</u>	<u>123,292</u>
8 <b>Operating Income</b>	<u>\$9,823</u>	<u>\$39,652</u>	<u>\$49,475</u>	<u>(\$42,388)</u>	<u>\$7,087</u>	<u>\$37,124</u>	<u>\$44,211</u>
9 <b>Rate Base</b>	<u>\$317,840</u>		<u>\$633,093</u>		<u>\$602,222</u>		<u>\$602,222</u>
10 <b>Rate of Return</b>	<u>3.09%</u>		<u>7.81%</u>		<u>1.18%</u>		<u>7.34%</u>

Utilities, Inc. of Florida - Pinellas County Adjustment to Operating Income Test Year Ended 12/31/11		Schedule No. 3-C Docket No. 120209-WS
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase.	(\$74,734)
2	To reflect appropriate misc. service charge and impute incremental increase. (Issue 11)	174
	Total	<u>(\$74,560)</u>
<u>Operation and Maintenance Expense</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	(\$522)
2	Reflect appropriate amount of computer maintenance expense. (Issue 3)	(793)
3	Contested audit adjustments. (Issue 12)	(33)
4	Reflect salary and benefits adjustment. (Issue 13)	(6,544)
5	Reflect appropriate rate case expense. (Issue 14)	(1,400)
6	Reflect appropriate bad debt expense. (Issue 15)	13
	Total	<u>(\$9,278)</u>
<u>Depreciation Expense - Net</u>		
1	Audit adjustments agreed to by Utility. (Issue 2)	\$553
2	Phoenix Project adjustment. (Issue 3)	(530)
3	Reflect appropriate pro forma plant adjustments. (Issue 5)	(75)
	Total	<u>(\$52)</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above.	(\$3,355)
2	Reflect appropriate pro forma plant adjustments. (Issue 5)	4,936
3	Reflect salary and benefits adjustment. (Issue 12)	(56)
	Total	<u>\$1,525</u>

**Schedule No. 4-A**

<b>UTILITIES, INC. OF FLORIDA (PINELLAS COUNTY)</b>			
<b>WATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Commission Approved Rate Structure and Rates</b>	
<b>BFC/gallonage rate structure BFC = 45%</b>		<b>BFC/ gallonage rate structure BFC = 45%</b>	
BFC	\$7.17	BFC	\$11.45
0-3 kgals (non-discretionary)	\$3.94	All gallons	\$6.49
3+ kgals	\$4.38		
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Consumption (kgals)</b>		<b>Consumption (kgals)</b>	
0	\$7.17	0	\$11.45
1	\$11.11	1	\$17.94
3	\$18.99	3	\$30.92
6	\$32.13	6	\$50.39
10	\$49.65	10	\$76.35
20	\$93.45	20	\$141.25

Utilities, Inc. of Florida – Pinellas County Monthly Water Rates Test Year Ended 12/31/11			Schedule No. 4-B Docket No. 120209-WS	
	Utility Current Rates	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential Service and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$7.17	\$12.32	\$11.45	\$0.44
1"	\$17.93	\$30.81	\$28.63	\$1.09
1-1/2"	\$35.85	\$61.60	\$57.25	\$2.18
2"	\$57.38	\$98.60	\$91.60	\$3.48
3"	\$114.75	\$197.17	\$183.20	\$6.96
4"	\$179.29	\$308.07	\$286.25	\$10.88
6"	\$358.58	\$616.15	\$572.50	\$21.76
Charge per 1,000 Gallons - Residential				
0 - 3,000 gallons	\$3.94	\$6.77	N/A	N/A
3,001 - 6,000 gallons	\$4.38	\$7.53	N/A	N/A
All Gallons	N/A	N/A	\$6.49	\$0.25
Charge per 1,000 Gallons - General Service				
	\$4.03	\$6.92	\$6.49	\$0.25
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$18.99	\$32.63	\$30.92	
6,000 Gallons	\$32.13	\$55.22	\$50.39	
10,000 Gallons	\$49.65	\$85.34	\$76.35	

Utilities, Inc. of Florida - Seminole County Schedule of Water Rate Base Test Year Ended 12/31/11				Schedule No. 2-A Docket No. 120209-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	
1 Plant in Service	\$3,708,270	\$1,371,637	\$5,079,907	(\$115,293)	\$4,964,614	
2 Land and Land Rights	(1,714)	17,929	16,215	0	16,215	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(384,499)	(1,331,122)	(1,715,621)	(123,598)	(1,839,219)	
5 CIAC	(1,214,604)	3,587	(1,211,017)	286,468	(924,549)	
6 Amortization of CIAC	863,089	(35,497)	827,592	(117,692)	709,900	
7 Working Capital Allowance	<u>0</u>	<u>210,184</u>	<u>210,184</u>	<u>(45,488)</u>	<u>164,696</u>	
8 <b>Rate Base</b>	<u>\$2,970,542</u>	<u>\$236,718</u>	<u>\$3,207,260</u>	<u>(\$115,604)</u>	<u>\$3,091,656</u>	

Utilities, Inc. of Florida - Seminole County Schedule of Wastewater Rate Base Test Year Ended 12/31/11				Schedule No. 2-B Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,613,859	\$1,764,826	\$3,378,685	(\$96,503)	\$3,282,182
2 Land and Land Rights	180,351	(161,339)	19,012	0	19,012
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(37,627)	(1,024,809)	(1,062,436)	2,216	(1,060,220)
5 CIAC	(1,042,129)	327,749	(714,380)	0	(714,380)
6 Amortization of CIAC	556,978	(56,515)	500,463	(2,195)	498,268
7 CWIP	10	(10)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>111,517</u>	<u>111,517</u>	<u>(24,137)</u>	<u>87,380</u>
9 <b>Rate Base</b>	<u>\$1,271,442</u>	<u>\$961,419</u>	<u>\$2,232,861</u>	<u>(\$120,620)</u>	<u>\$2,112,241</u>

Utilities, Inc. of Florida - Seminole County Adjustments to Rate Base Test Year Ended 12/31/11		Schedule No. 2-C Docket No. 120209-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$44,171	\$23,431	
2 Phoenix Project adjustment. (Issue 3)	(30,919)	(16,473)	
3 Reflect appropriate pro forma plant adjustments. (Issue 5)	(128,545)	(2,999)	
4 Post-Agenda Audit Adjustments	0	(100,462)	
Total	<u>(\$115,293)</u>	<u>(\$96,503)</u>	
<u>Accumulated Depreciation</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$132,100)	(\$70,073)	
2 Phoenix Project adjustment. (Issue 3)	4,127	2,186	
3 Reflect appropriate pro forma plant adjustments. (Issue 5)	4,374	(675)	
4 Post-Agenda Audit Adjustments	0	70,778	
Total	<u>(\$123,598)</u>	<u>\$2,216</u>	
<u>CIAC</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$286,468	\$269,264	
2 Post-Agenda Audit Adjustments	0	(269,264)	
Total	<u>\$286,468</u>	<u>\$0</u>	
<u>Accumulated Amortization of CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>(\$117,692)</u>	<u>(\$2,195)</u>	
<u>Working Capital</u>			
Reflect appropriate working capital allowance. (Issue 7)	<u>(\$45,488)</u>	<u>(\$24,137)</u>	

Utilities, Inc. of Florida - Seminole County Statement of Water Operations Test Year Ended 12/31/11						Schedule No. 3-A Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$989,369</u>	<u>\$179,145</u>	<u>\$1,168,514</u>	<u>(\$291,641)</u>	<u>\$876,873</u>	<u>\$215,440</u> 24.57%	<u>\$1,092,313</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$780,041	(\$246,630)	\$533,411	(\$63,137)	\$470,274		\$470,274
3 Depreciation	148,603	26,149	174,752	31,048	205,800		205,800
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	180,766	(60,342)	120,424	(23,478)	96,946	9,695	106,640
6 Income Taxes	<u>(23,913)</u>	<u>114,800</u>	<u>90,887</u>	<u>(85,678)</u>	<u>5,209</u>	<u>77,422</u>	<u>82,631</u>
7 <b>Total Operating Expense</b>	<u>1,085,497</u>	<u>(166,023)</u>	<u>919,474</u>	<u>(141,246)</u>	<u>778,228</u>	<u>87,117</u>	<u>865,345</u>
8 <b>Operating Income</b>	<u>(\$96,128)</u>	<u>\$345,168</u>	<u>\$249,040</u>	<u>(\$150,395)</u>	<u>\$98,645</u>	<u>\$128,323</u>	<u>\$226,968</u>
9 <b>Rate Base</b>	<u>\$2,970,542</u>		<u>\$3,207,260</u>		<u>\$3,091,656</u>		<u>\$3,091,656</u>
10 <b>Rate of Return</b>	<u>(3.24%)</u>		<u>7.76%</u>		<u>3.19%</u>		<u>7.34%</u>

Utilities, Inc. of Florida - Seminole County Statement of Wastewater Operations Test Year Ended 12/31/11						Schedule No. 3-B Docket No. 120209-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$863,881</u>	<u>\$166,740</u>	<u>\$1,030,621</u>	<u>(\$213,905)</u>	<u>\$816,716</u>	<u>\$70,033</u> 8.57%	<u>\$886,749</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$394,656	\$230,877	\$625,533	(\$107,219)	\$518,314		\$518,314
3 Depreciation	73,644	15,855	89,499	1,567	91,066		91,066
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	78,943	78,943	(16,246)	62,697	3,151	65,849
6 Income Taxes	<u>(12,688)</u>	<u>75,964</u>	<u>63,276</u>	<u>(31,990)</u>	<u>31,286</u>	<u>25,168</u>	<u>56,454</u>
7 <b>Total Operating Expense</b>	<u>455,612</u>	<u>401,639</u>	<u>857,251</u>	<u>(153,887)</u>	<u>703,364</u>	<u>28,319</u>	<u>731,683</u>
8 <b>Operating Income</b>	<u>\$408,269</u>	<u>(\$234,899)</u>	<u>\$173,370</u>	<u>(\$60,018)</u>	<u>\$113,352</u>	<u>\$41,714</u>	<u>\$155,066</u>
9 <b>Rate Base</b>	<u>\$1,271,442</u>		<u>\$2,232,861</u>		<u>\$2,112,241</u>		<u>\$2,112,241</u>
10 <b>Rate of Return</b>	<u>32.11%</u>		<u>7.76%</u>		<u>5.37%</u>		<u>7.34%</u>

Utilities, Inc. of Florida - Seminole County Adjustment to Operating Income Test Year Ended 12/31/11		Schedule No. 3-C Docket No. 120209-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$294,501)	(\$214,360)	
2 To reflect appropriate misc. service charge and impute incremental increase. (Issue 11)	<u>2,860</u>	<u>455</u>	
Total	<u>(\$291,641)</u>	<u>(\$213,905)</u>	
<u>Operation and Maintenance Expense</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	(\$4,232)	(\$362)	
2 Reflect appropriate amount of computer maintenance expense. (Issue 3)	(4,778)	(2,535)	
3 To adjust purchased wastewater for excess I & I. (Issue 6)	0	(63,900)	
4 Contested audit adjustments. (Issue 12)	(191)	(102)	
5 Reflect salary and benefits adjustment. (Issue 13)	(41,937)	(22,250)	
6 Reflect appropriate rate case expense. (Issue 14)	(8,488)	(4,503)	
7 Reflect appropriate bad debt expense. (Issue 15)	5,210	(8,196)	
8 Reflect additional adjustments to O&M expense. (Issue 16)	<u>(8,721)</u>	<u>(5,370)</u>	
Total	<u>(\$63,137)</u>	<u>(\$107,219)</u>	
<u>Depreciation Expense - Net</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	38,917	3,303	
2 Phoenix Project adjustment. (Issue 3)	(\$3,092)	(\$1,647)	
3 Reflect appropriate pro forma plant adjustments. (Issue 5)	<u>(4,778)</u>	<u>(88)</u>	
Total	<u>\$31,048</u>	<u>\$1,567</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$13,124)	(\$9,626)	
2 Reflect appropriate pro forma plant adjustments. (Issue 5)	8,407	3,334	
3 Reflect salary and benefits adjustment. (Issue 13)	<u>(18,761)</u>	<u>(9,954)</u>	
Total	<u>(\$23,478)</u>	<u>(\$16,246)</u>	

**Schedule No. 4-A**

<b>UTILITIES, INC. OF FLORIDA (SEMINOLE COUNTY) WATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Commission Approved Rate Structure and Rates</b>	
3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.75, and 2.25 BFC = 25%		3-Tier Inclining Block Rate Structure Rate Factors 1.00, 1.75, and 2.25 BFC = 25%	
BFC	\$7.23	BFC	\$8.38
0-6 kgals (non-discretionary)	\$2.77	0-8 kgals	\$3.72
6-8 kgals	\$3.12	8-16 kgals	\$6.51
8-16 kgals	\$5.37	16+ kgals	\$8.37
16+ kgals	\$6.92		
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$7.23	0	\$8.38
1	\$10.00	1	\$12.10
3	\$15.54	3	\$19.54
6	\$23.85	6	\$30.70
10	\$40.83	10	\$51.16
20	\$100.73	20	\$123.70

Utilities, Inc. of Florida – Seminole County					Schedule No. 4-B
Monthly Water Rates					Docket No. 120209-WS
Test Year Ended 12/31/11					
	Utility Current Rates	Commission Approved Interim	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b>Residential and General Service</b>					
<b>Base Facility Charge by Meter Size:</b>					
5/8"X3/4"	\$7.23	\$7.59	\$9.72	\$8.38	\$0.30
1"	\$18.08	\$18.98	\$24.30	\$20.95	\$0.75
1-1/2"	\$36.17	\$37.96	\$48.61	\$41.90	\$1.49
2"	\$57.86	\$60.74	\$77.75	\$67.04	\$2.39
3"	\$115.72	\$121.47	\$155.50	\$134.08	\$4.77
4"	\$180.83	\$189.81	\$243.00	\$209.50	\$7.46
6"	\$361.64	\$379.61	\$485.97	\$419.00	\$14.92
Charge per 1,000 Gallons - Residential					
0 - 6,000 gallons	\$2.77	\$2.91	\$3.72	N/A	N/A
6,001 - 8,000 gallons	\$3.12	\$3.28	\$4.19	N/A	N/A
0 - 8,000 gallons	N/A	N/A	N/A	\$3.72	\$0.13
8,001 - 16000 gallons	\$5.37	\$5.64	\$7.22	\$6.51	\$0.23
Over 16,000 gallons	\$6.92	\$7.27	\$9.30	\$8.37	\$0.30
Charge per 1,000 Gallons - General Service	\$3.50	\$3.67	\$4.70	\$4.36	\$0.16
<b>Typical Residential 5/8" x 3/4" Meter Bill Comparison</b>					
3,000 gallons	\$15.54	\$16.32	\$20.88	\$19.54	
6,000 gallons	\$23.85	\$25.05	\$32.04	\$30.70	
10,000 gallons	\$40.83	\$42.89	\$54.86	\$51.16	

**Schedule No. 4-C**

<b>UTILITIES, INC. OF FLORIDA (SEMINOLE COUNTY)</b>			
<b>WASTEWATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates</b>		<b>Commission Rate Structure and Rates</b>	
BFC/gallonage charge rate structure BFC =25%		BFC/gallonage charge rate structure BFC =25%	
BFC	\$12.63	BFC	\$13.14
Per 1,000 gallons (capped at 10 kgals)	\$7.06	Per 1,000 gallons (capped at 8 kgals)	\$8.13
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
Consumption (kgals)		Consumption (kgals)	
0	\$12.63	0	\$13.14
1	\$19.69	1	\$21.27
3	\$33.81	3	\$37.53
6	\$54.99	6	\$61.92
8	\$69.11	8	\$78.18
10	\$83.23	10	\$78.18

Utilities, Inc. of Florida – Seminole County				Schedule No. 4-D	
Monthly Wastewater Rates				Docket No. 120209-WS	
Test Year Ended 12/31/11					
	Utility Current Rates	Commission Approved Interim	Utility Requested Final	Commission Approved Rates	4 Year Rate Reduction
<b><u>Residential</u></b>					
Flat Rate - Unmetered	\$42.79	\$43.50	\$54.04	N/A	N/A
Base Facility Charge - All Meter Sizes	\$12.63	\$12.84	\$15.95	\$13.14	\$0.30
Charge per 1,000 Gallons - Residential*					
* 8,000 gallon cap	N/A	N/A	N/A	\$8.13	\$0.19
* 10,000 gallon cap	\$7.06	\$7.17	\$8.92	N/A	N/A
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"x3/4"	\$12.63	\$12.84	\$15.95	\$13.14	\$0.30
1"	\$31.60	\$32.12	\$39.91	\$32.85	\$0.75
1-1/2"	\$63.17	\$64.22	\$79.78	\$65.70	\$1.50
2"	\$101.08	\$102.75	\$127.65	\$105.12	\$2.41
3"	\$202.16	\$205.49	\$255.31	\$210.24	\$4.81
4"	\$315.87	\$321.08	\$398.91	\$328.50	\$7.52
6"	\$631.74	\$642.16	\$797.82	\$657.00	\$15.05
Charge per 1,000 Gallons - General Service	\$8.46	\$8.60	\$10.68	\$9.76	\$0.22
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$33.81	\$34.35	\$42.71	\$37.53	
6,000 Gallons	\$54.99	\$55.86	\$69.47	\$61.92	
10,000 Gallons	\$83.23	\$84.54	\$105.15	\$78.18	