BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc. | DOCKET NO. 140217-WUORDER NO. PSC-15-0535-PAA-WUISSUED: November 19, 2015 |

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman

LISA POLAK EDGAR

RONALD A. BRISÉ

JULIE I. BROWN

JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING RATE INCREASE FOR WATER AND WASTEWATER AND

FINAL ORDER ESTABLISHING TEMPORARY RATES

BY THE COMMISSION:

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

**Background**

Cedar Acres, Inc. (Cedar Acres or Utility) is a Class C water Utility serving approximately 319 customers in the Oakland Hills subdivision located in Sumter County. The area is in the Southwest Florida Water Management District (SWFWMD). Wastewater treatment is provided by septic tanks. According to the Utility’s 2014 Annual Report, total gross revenues were $35,353 and total operating expenses were $105,130, resulting in a net operating loss of $69,777.

The Utility was subject to Sumter County jurisdiction when the development was designed, and Cedar Acres was established. The County turned over jurisdiction to the Florida Public Service Commission (Commission) in 1987. Unaware of the change in jurisdiction, the Utility did not apply for an original certificate with us until 2008. We granted an original certificate and approved the existing rates and charges.[[1]](#footnote-1)

On November 17, 2014, we received Cedar Acres’ application for a staff-assisted rate case. The instant docket is the Utility’s first rate case. Rate base has never been established for Cedar Acres. Likewise, rates have not changed in almost 30 years, since the Utility’s inception.

We have the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

**Decision**

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, we shall determine the overall quality of service provided by the Utility. This is derived from an evaluation of three separate components of Utility operations. These components are the quality of the Utility’s product, the operating conditions of the Utility’s plant and facilities, and the Utility’s attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints over the preceding five-year period shall be considered pursuant to Section 367.0812(1)(c), F.S.

Quality of Product and Operating Conditions of the Plant and Facilities

Cedar Acres is located in the Oakland Hills subdivision in Lady Lake, Florida. The raw source water is ground water which is obtained from two wells in the service area and is treated. The processing sequence for the water treatment system is to pump raw water from the aquifer, inject liquid chlorine, store in a tank and then distribute.

The last Sanitary Survey Report by DEP was dated July 14, 2015. Five deficiencies were noted by DEP. There was no signed and sealed report documenting a tank inspection for the 5,000 gallon hydro-pneumatic tank; no emergency preparedness/response plan available for review; no cross connection control panel plan on file; and no record that the calibration of the finished drinking water flow meter had been checked and the well pedestal was damaged. All of these deficiencies were also found in the previous sanitary survey conducted by DEP in 2012. Besides a documented tank inspection, the Utility has not corrected the other deficiencies according to DEP.

A recent incident with the Utility in July of 2015 has called into question the operations of Cedar Acres. The Utility experienced a power failure as a result of non-payment of its electric bills. The Utility had switched from receiving paper to electronic billing and had missed the notices for disconnection. As a result of the disconnection, the backup generator turned on but did not alert the operator that it was operating. The generator ran out of fuel and the water pressure decreased, resulting in the issuance of a boil water notice to the community. In our staff’s investigation of the event, it was found that the Utility is not in compliance with Department of Health (DOH) and DEP standards for the issuances of boil water notices. Some customers noted they did not receive boil water notices in July of 2015 and that they have never received boil water notices from the Utility. Instead, the Utility has a practice of posting one sign at the entrance of the community. DOH requires boil water notices to be issued either through radio or television stations that broadcast in the area, consistent with Rule 62-560.410(1)(a)(1), F.A.C., telephoned, such as reverse 911, or hand-delivered to all affected residents and businesses as soon as possible. The Utility has been informed of its improper practice and the Utility responded it will change its protocol in future incidences. DEP was notified of the incident and inspected the facilities again in mid-August 2015. DEP gave notice to the Utility to fix the issues with the generator by August 27, 2015, which the Utility has not fixed to date.

Customer Satisfaction

We have received four customer complaints within the last five years. All four complaints identified improper billing and stated no billing details appeared on the bill. The Utility has since changed the company that handles its billing and those issues have been resolved. When asked by our staff for a copy of its in-house complaints during the test year the Utility responded that it did not receive any complaints.

Our staff conducted a customer service meeting on May 14, 2015, in Lady Lake, Florida. This meeting gave the customers an opportunity to express specific concerns regarding the Utility’s attitude and responsiveness to quality of service issues. Thirty-eight customers attended the meeting and nine customers spoke. All of the customers who spoke and those who subsequently wrote letters were primarily concerned with the rate increase itself. Only one customer complaint addressed secondary water quality issues such as taste and odor. The Utility is currently in compliance with all primary and secondary water standards set by the DEP.

Unsatisfactory Quality of Service

Based on input from the Utility’s customers during our October 13, 2015, Agenda Conference, we have serious concerns over the apparent repetitive billing issues, including meter and billing accuracy, and the overall management practices of this Utility. Further, the power failure incident in July 2015 showcased a major DEP/DOH compliance issue with regards to boil water notices. Additionally, the Utility has the same violations on both the 2012 and 2015 DEP sanitary surveys. Because of these violations and serious concerns over the management of the Utility, we find the overall quality of service for the Cedar Acres water system is unsatisfactory.

Because we find the Utility’s quality of service to be unsatisfactory, we find it necessary to require several extra steps to improve the Utility’s service to its customers.  First, we direct our staff to conduct a management audit of the Utility’s billing and management practices.  Second, to ensure compliance with our Order, the Utility must file with our Clerk compliance reports that address: all corrective measures the utility has taken to fix its billing issues, including the concerns raised by its customers; all measures taken to address customer concerns and complaints; all measures taken to comply with Commission, DEP, and DOH regulations, including boil water notices; and a billing analysis.  The first compliance report is due 6 months from the issuance date of the consummating order making this Order final, and the second is due 12 months from the date of the consummating order.  Within 60 days of each compliance report, we direct our staff to report to us whether the utility is complying with our order.  Finally, we find it appropriate to remove the President’s salary, reduce the financial manager’s salary by ten percent, and remove the three directors’ fees.  These adjustments, which total $8,350, shall be reallocated to the meter replacement program disclosed below.

Used and Useful (U&U)

Cedar Acre’s water treatment plant consists of two wells, one 8 inch well rated 300 gallons per minute (gpm) and a second 5 inch well rated at 90 gpm for a total capacity of 390 gpm. Each well has a 5,000-gallon hydro-pneumatic tank for system pressurization. A hypo-chlorination system is used for disinfection.

The distribution system is a network of approximately 14,170 linear feet of 4, 6, and 8-inch pipe. According to the Utility, there are no fire hydrants in the subdivision

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced or purchased. Unaccounted for water is all produced or purchased water that is not sold, metered or accounted for in the records of a Utility. The rule provides that to determine whether adjustments to plant and operating expenses, such as purchased power and chemicals are necessary, we 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. The unaccounted for water is calculated by subtracting both the gallons used for services, such as flushing, and the gallons sold to customers from the total gallons pumped or purchased for the test year.

The Utility’s records indicated 24,655,000 gallons of water were pumped during the test year, and 22,190,000 gallons of water were sold to customers. The result [(24,655,000-22,190,000)÷24,655,000] for unaccounted for water is 10 percent, which means there is EUW of zero percent. We find no adjustment needs to be made to O&M expenses.

Water Treatment Plant Used and Useful

Pursuant to Rule 25-30.4325, F.A.C., the U&U percentage of a WTP is calculated by taking the single maximum day in the test year less the EUW times two, then adding the fire flow allowance plus the growth allowance, then dividing the whole amount by the firm reliable capacity (([2 x (single maximum day-EUW)] + fire flow + growth allowance)/ firm reliable capacity).

The Utility has two wells with a total capacity of 390 gpm. If a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant’s firm reliable capacity. By taking one of the wells (300 gpm) out of service, the Utility reflected a firm reliable capacity of 90 gpm.

The single maximum day in the test year was 141,600 gallons (98 gpm) which occurred on January 14, 2014. This appears to be appropriate as it is not associated with a line break or other unusual occurrence. As described above, there is an EUW of zero percent. The growth allowance is 5 gpm. The fire flow allowance is zero. The result, [(2\*(98-0)+0+5)/90= 228%] is greater than 100 percent U&U.

There has been no prior rate case for this Utility; therefore, we have not previously established U&U. The Utility’s distribution system has not experienced growth over the last several years and is fully utilized by existing customers. Based on the above information, Cedar Acres’ water treatment plant and water distribution system shall be considered 100 percent used and useful (U&U). There is zero excessive unaccounted for water, therefore, no adjustment to chemicals and purchased power expense is recommended.

Test Year Rate Base

The appropriate components of the Utility’s rate base include Utility plant-in-service, land, accumulated depreciation, and working capital. The test year ended September 30, 2014, for this rate case. A summary of each water rate base component and the approved adjustments are discussed below.

Utility Plant-in-Service (UPIS): The Utility recorded $364,356 in UPIS. The Utility was not able to provide supporting documentation for this amount. Cedar Acres’ general ledger, invoices, and tax returns were reviewed to calculate the balance for UPIS. We find the appropriate UPIS balance is $57,019. This represents a reduction of $307,337.

Land: Cedar Acres recorded $47,740 in land value. Cedar Acres purchased 217 acres of land on June 10, 1983. Two parcels, totaling of 4.34 acres, were dedicated to public service for use by the Utility. Based on documentary stamps affixed on the deed, the price paid per acre was $1,023, resulting in a land value of $4,440 ($1,023\*4.34 acres). We find it appropriate to reduce the land value by $43,300 ($47,740-$4,440) to reflect the original cost when devoted to public use. Upon further review, it was determined that one of the two parcels is no longer being used for Utility purposes. Therefore, we find the land value shall be reduced by an additional $2,220 resulting in a balance of $2,220 ($4,440-$2,220).

Non-Used and Useful Plant: As discussed above Cedar Acres’ water treatment plant and distribution system are 100 percent U&U. Therefore, a non-U&U adjustment is not necessary.

Accumulated Depreciation: Cedar Acres recorded $275,116 for accumulated depreciation. We recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result we have decreased accumulated depreciation by $266,912. In addition, we decreased this amount by $1,327 ($2,653$÷$2) to reflect an averaging adjustment. The adjustments result in accumulated depreciation of $6,877 ($275,116-$266,912-$1,327).

Contributions-in-Aid-of-Construction (CIAC): Cedar Acres did not record any CIAC. The Utility stated that there is no CIAC nor has there ever been any CIAC. The tariff we have on file includes no specified service availability charges. Thus, we find no adjustment is necessary to CIAC.

Amortization of CIAC: Cedar Acres did not record any amortization of CIAC. As stated above, the Utility did not record any CIAC. Therefore, no adjustment is necessary to amortization of CIAC.

Working Capital Allowance: Cedar Acres did not record any working capital allowance. Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of a Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating a working capital allowance. Applying this formula, the working capital allowance is $11,775 (based on O&M expense of $94,198).

Rate Base Summary: Based on the foregoing, the appropriate test year average rate base is $64,137. Rate base is shown on Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B.

Return on Equity and Overall Rate of Return

In its capital structure, the Cedar Acres included common stock, retained earnings and related-party debt. The amounts of common stock and retained earnings could not be verified. Therefore, the common stock balance in the amount of $9,500 and retained earnings in the amount of ($118,986) were removed from the Utility’s capital structure.

It is our practice that, regarding related-party debt, when no interest or scheduled payments for principal are being made, the debt is considered common equity.[[2]](#footnote-2) We have adjusted the Utility’s capital structure to reflect the related-party debt as common equity pursuant to our practice. This adjustment results in a common equity balance of $232,445.

The Utility’s capital structure has been reconciled with the approved rate base. The appropriate ROE is 8.74 percent based upon our approved leverage formula currently in effect.[[3]](#footnote-3) We approve an ROE of 8.74 percent with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

Test Year Revenues

The Utility’s test year is October 2013 to September 2014 and revenues are only recorded at the end of each calendar year. For that reason, Cedar Acres’ last recorded revenues were $28,638 as of December 31, 2013. Based upon review of the Utility’s test year billing determinants and the rates that were in effect during the test year, we determined the test year revenues shall be increased by $6,764.

In addition, during the test year, there were numerous meters that were not read due to various issues. Therefore, the test year gallons were understated. In order to determine the appropriate gallons for rate-setting purposes, we find it appropriate to use 90 percent of the test year water gallons pumped, which is 22,190,000 gallons. The billed test year gallons were 21,118,000, resulting in a difference of 1,072,000 gallons. We find that it is appropriate to impute the 1,072,000 gallons and the associated revenue of $49 due to the unread meters. Therefore, we find the appropriate test year revenues for Cedar Acres’ water system are $35,451 ($28,638+$6,764+$49). Test year revenues are shown on Schedule No. 3-A.

Operating Expense

Cedar Acres recorded operating expense of $102,803 for the test year ended September 30, 2014. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. We have made several adjustments to the Utility’s operating expenses as summarized below.

Salaries and Wages - Employees (601*)*: Cedar Acres recorded $50,837 for Salaries and Wages – Employees expense. This amount includes the salary for the Utility’s Finance Manager. The Finance Manager’s duties and responsibilities include general bookkeeping and accounting for the Utility along with financial reporting and ensuring compliance with Utility regulations. Other duties include responding to customer inquiries and coordinating Utility maintenance, as well as coordinating the meter reading and billing functions with the third-party company who performs this work every other month. The Utility provided recent W-2 forms for support documentation of the salaries and wages for the Finance Manager. Based on that information, the Finance Manager’s salary was increased by $1,086 to reflect the appropriate test year amount, resulting in a salary of $51,923.

In the audit workpapers along with responses to data requests, the Utility indicated that the Finance Manager spends 10 percent of the time on bookkeeping duties for non-Utility business. It was also noted that approximately one hour per week is spent answering phones for another related-party business in the same building. Therefore, the salary is based on a 35-hour week.

The 2012 AWWA Water Utility Compensation Survey (Survey) was used to develop a range of salaries that best fit the duties performed by the Finance Manager. These salaries were indexed to 2015 using our approved indices from 2013-2015. Since some duties or parts of duties listed in the Survey are contracted out by Cedar Acres, the salary for the Finance Manager is equal to the average of the minimum salaries in the survey adjusted for a 35-hour week. This would result in an annual salary of $38,938, which represents a net reduction of $11,899 ($50,837-$38,938). However, due to the unsatisfactory quality of service we find it appropriate to further reduce the Finance Manager’s salary by 10 percent, $3,894, resulting in an annual salary of­­ $35,044. The $3,894 reduction will be put in to escrow annually for the meter replacement program.

Salaries and Wages – Officers (603): The Utility recorded $1,350 in this account for directors’ fees. Cedar Acres has a Board of Directors and an associated annual meeting to discuss Utility matters. The allowance for director’s fees is in line with our prior decisions. In a 2010 rate case for Lighthouse Utilities Company, we allowed $18,000 for three directors.[[4]](#footnote-4) However, due to unsatisfactory quality of service discussed above, we find it appropriate to instead use these funds for the meter replacement program.

Additionally, the Utility recorded no salaries or wages for the Utility President. The President spends approximately five hours per week on various Utility-related issues, as well as being on-call on weekends. An hourly wage of $14.86 was approved in Docket No. 100471-SU.[[5]](#footnote-5) This hourly rate was used due to the similar amount of hours worked and the duties performed, which comports to a 1993 First District Court of Appeals (DCA) decision.[[6]](#footnote-6) The First DCA stated that: "[i]n determining whether an executive's salary is reasonable compared to salaries paid to other company executives, the comparison must, at the minimum, be based on a showing of similar duties, activities, and responsibilities in the person receiving the salary."[[7]](#footnote-7) This amount was indexed through 2015 ($14.86\*1.072039 = $15.93)[[8]](#footnote-8) and allowed 260 hours annually. This results in an annual salary of $4,142 (260\*$15.93) for the President. However, based on the finding of unsatisfactory quality of service, we are reducing the amount of this salary by 25 percent or $1,036 ($4,142\*.25). This reduction results in a salary for the president of $3,106 ($4,142-$1,036). Further, the President’s decreased salary will also be reallocated to the meter replacement program.

The total amount of $4,456 ($1,350+$3,106) for Salaries and Wages – Officers expense will be put in escrow annually to be used for the meter replacement program.

Purchased Power (615): The Utility recorded $3,449 for purchased power. Staff decreased this account by $226 for non-Utility expenses related to a lighted sign for the subdivision. The Utility also recorded charges for an electric meter that runs a pump at a well site that is no longer in use. The total for that meter was $148. Therefore, we have decreased this account by $374 ($226+$148) to reflect the appropriate amount for purchased power.

Contractual Service – Professional (631): The Utility recorded contractual services-professional expense of $15,967. We reduced this account by $3,488 for temporary office help. We also removed $985 for income tax preparation related to 2012 Income Taxes. Additionally, $2,855 ($2,100+$425+$330) was removed related to Annual Report preparation that is non-recurring. Nonetheless, we find these services were prudent and necessary due to the poor condition of the Utility’s books and records. Consistent with our practice, we approve amortizing these amounts over five years. This results in an increase of $1,466 [($3,488+$2,855+$985)÷5].

The Utility was found to have approximately 30 meters that require immediate replacement. We approve the implementation of a meter replacement program. It will cost $180 to replace each meter. The Utility will replace 78 meters a year for a total of 320 meters. The funds for the meter replacement program, including the funds that would be used for the decreased President’s salary, directors’ fees, and 10 percent of the Financial Manager’s salary, will be collected in an escrow account at the rate of $14,110 a year. The implementation of such an escrow program will provide extra protections to the customers and ensure the completion of the meter replacement program by the Utility.

Therefore, the total amount of $24,215 ($15,967-$3,488-$985-$2,855+$1,466+$14,110) for Contractual Services-Professional. This represents an increase of $8,248.

Contractual Service – Testing (635): Cedar Acres recorded $2,866 for Contractual Services – Testing. The Utility provided invoices to support the testing costs for the test year. We have decreased this account by $595 to reflect an invoice that was paid twice. We have increased this amount by $885 to reflect a three-year amortization of DEP tri-annual testing ($2,655÷3). Therefore, the Contractual Services – Testing expense is $3,156 ($2,866-$595+$885).

Rents (640):The Utility recorded no rent expense in the test year. However, Cedar Acres shares office space with J.S.R. Company, a related party. According to our staff’s audit report, Cedar Acres uses approximately 25 percent of the total office space. The total monthly rent is $3,048 resulting in the Utility’s monthly rent expense of $762 ($3,048\*.25). Therefore, annual rent expense is $9,144 ($762\*12).

Regulatory Commission Expense (665): Cedar Acres did not record any regulatory commission expenses. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. Notices for the customer meeting were included in the customer’s bills. Therefore, the only expense associated with the customer meeting notice was $128 for copies. For the notice of final rates, we have estimated $156 for postage expense, $64 for printing expense, and $16 for envelopes. These amounts result in $364 ($128+$156+$64+$16) for postage, copying, and envelopes. Additionally, the Utility paid a $1,000 rate case filing fee. Based on the above, we find the total rate case expense is $1,364 which, amortized over four years, is $341 annually.

Miscellaneous Expense (675): Cedar Acres recorded $5,021 for miscellaneous expense. This account includes lawn care and maintenance, telephone, licenses and fees, along with other incidentals. We removed $18 from this account to reflect an unsupported amount.

The Utility recorded $1,950 for lawn maintenance during the test year. We are making two adjustments associated with lawn maintenance. The first is a reduction of $150 for work done on a lot in Oakland Hills that is owned by Cedar Acres, Inc., but is not used for Utility business ($1,950-$150=$1,800). The second adjustment is to remove half of the remaining expense for the well site that is no longer being used, which would be a reduction of $900 ($1,800÷2).

The Utility did not record any expenses related to tank maintenance during the test year. However, we verified an invoice for tank maintenance dated July 21, 2015, in the amount of $1,800. An additional invoice was verified, dated August 12, 2015, for external tank painting in the amount of $690. The Utility also performed maintenance on their backup generator and water mains. These amounts were $420 and $1,463, respectively. Consistent with our practice of amortizing non-recurring expenses over five years, we are including one-fifth, or $875 [($1,800+$690+$420+$1,463)÷5].

Through a data request, we learned that the Utility does not own a computer or printer but was borrowing one from an associated company in the same office building. Also, the software the Utility is using on that computer is in need of updating. Normally, these items would be capitalized into rate base. Because we are approving the Operating Ratio Method in this case, we find it appropriate to expensing these items. We approve $500 for a computer and $150 for a printer/copier. Both of these items shall be amortized over six years in keeping with our depreciation rates. This results in an increase of $108 [($500+$150]÷6)..

Further, we are increasing this account by $150 to reflect the purchase of updated operating software. This amount represents a monthly fee of $12.50. The Utility is also requesting $1,416 for new accounting software. We find this amount is prudent because it will aid the Utility in its record keeping. Rule 25-30.433(8), F.A.C, states that “[n]on-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified.” This amount shall be amortized over five years, in accordance with Rule 25-30.433(8), F.A.C. The resulting increase is $283 ($1,416÷5).

In conclusion, we find a total miscellaneous expense of $5,369 ($5,021-$18-$150-$900+$875+$108+$150+$283). This is an overall increase of $348.

O&M Expenses Summary*:* Based on the above adjustments, we find O&M expense result in an increase of $854. We find O&M expense shall be $94,198. O&M expenses are shown on Schedules No. 3-A and No. 3-C.

Depreciation Expense (Net of Related Amortization of CIAC): Cedar Acres recorded $7,117 in its general ledger for net depreciation expense. We have recalculated this amount based on plant items that could not be supported through proper records. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., we find a net depreciation expense of $2,653. This amount results in a reduction to net depreciation expense of $4,464 ($7,117-$2,653).

Taxes Other Than Income (TOTI):Cedar Acres recorded $2,342 for TOTI. We are reducing property taxes by $12 for the parcel of land associated with the unused well site. The Utility recorded $1,030 for payroll taxes. Based on the combined level of Salaries and Wages expense, we have calculated payroll taxes of $3,946. Accordingly, we have increased payroll taxes by $2,916.

Cedar Acres recorded $1,289 for regulatory assessment fees (RAFs). Based on test year revenues of $35,451, the Utility’s RAFs shall be $1,596. We have increased this account by $307 to reflect the appropriate RAFs. As discussed below, revenues have been increased by $79,972 to reflect the change in revenue required to cover expenses and afford the Utility a 10 percent margin over its operating expenses. As a result, TOTI shall be increased by $3,599 to reflect RAFs of 4.5 percent on the recommended incremental change in revenues. We find TOTI of $9,152 ($2,342-$12+$2,916+$307+$3,599).

Income Tax: The Utility did not record any income tax expense for the test year. Cedar Acres has shown a net loss for the last several years in its Annual Reports and income tax returns. This tax loss carry-forward is in excess of the income tax provision on a going-forward basis, and is expected to continue to be so for at least the next 10 years. In this instance, it is our practice to allow no provision for income tax.[[9]](#footnote-9) Therefore, we find no income tax expense.

Operating Expenses Summary: The application of our adjustments to Cedar Acres’ recorded test year operating expenses result in approved operating expenses of $106,003. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Operating Ratio Methodology

Section 367.0814(9), F.S., provides we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Further, Rule 25-30.456, F.A.C., provides, in part, as an alternative to our staff-assisted rate case as described in Rule 25-30.455, F.A.C., that water utilities whose total gross annual operating revenues are less than $275,000 per system may petition this Commission for staff assistance using alternative rate setting.

Although the Utility did not petition for alternative rate setting under the aforementioned rule, we use our discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility’s rate base, the revenue requirement is based on Cedar Acres’ O&M expenses plus a margin. This methodology has been applied in cases that satisfy the qualifying criteria discussed below and cases in which the traditional calculation of the revenue requirement would not provide sufficient protection against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, we, for the first time, utilized the operating ratio methodology as an alternative means for setting rates.[[10]](#footnote-10) This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expenses. This criterion was applied again in Order No. PSC-97-0130-FOF-SU.[[11]](#footnote-11) Most recently, we approved the operating ratio methodology for setting rates in Order No. PSC-13-0327-PAA-SU.[[12]](#footnote-12)

By Order No. PSC-96-0357-FOF-WU, we established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU and how they apply to the Utility are discussed below.

(1) Whether the Utility’s O&M expenses exceeds rate base. The operating ratio method substitutes O&M expenses for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expenses. The decision to use the operating ratio method depends partly on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than the level of O&M expenses. The Utility’s primary risk resides with covering its operating expense. The adjusted rate base for the test year is $64,137, while adjusted O&M expenses are $94,198.

(2) Whether the Utility is expected to become a Class B Utility in the foreseeable future**.** Pursuant to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of $275,000 or less. Cedar Acres is a Class C Utility and the approved revenue requirement of $115,423 is substantially below the threshold level for Class B status ($200,000 per system). The Utility’s service area has not had any significant growth in the last five years. Therefore, we find the Utility will not become a Class B Utility in the foreseeable future.

(3) Quality of service and condition of plant. As discussed above, the overall quality of service for the Utility is unsatisfactory. Unsatisfactory quality contributes to our determination operating ratio methodology is appropriate for this Utility. It highlights the need for an adequate revenue stream in order to provide funds for improvements and repairs as deemed prudent and necessary.

(4) Whether the Utility is developer-owned. Some of the current Utility owners are associated with the original developer. However, as stated earlier, this Utility was established almost 30 years ago. There has been no significant growth in years, and the development is very close to being built out. We do not anticipate any significant growth in the foreseeable future.

**(**5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue in general is whether purchased water and/or wastewater costs should be excluded in the computation of the operating margin. Cedar Acres operates the water treatment plant. Therefore, there is no concern regarding excluding purchased water or wastewater costs.

Based on our review of the Utility’s situation relative to the above criteria, we find that Cedar Acres is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, we determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the percentage should be, but what level of operating margin will allow the Utility to provide safe and reliable service and remain a viable entity. In order to answer this question, the particular circumstances of the Utility must be reviewed and considered thoroughly.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. However, in this case, the Utility is not paying interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the Utility resides in operating costs rather than in cost of the plant. The fair return on a small rate base may not adequately compensate the Utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, we find the margin shall adequately compensate the Utility owner for the principal risk which lies with the operating costs.

Third, if the return on rate base method was applied, Cedar Acres could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. The return on rate base would provide the Utility with slightly less than 60 percent of the return provided by operating ratio methodology.[[13]](#footnote-13) If the Utility’s operating expenses increase or revenues decrease, Cedar Acres would not have the funds required for day-to-day operations.

Based on the above factors, we find the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide Cedar Acres with adequate cash flow to provide some assurance of safe and reliable service, we shall apply the operating ratio methodology at a margin of 10 percent of O&M expenses for determining the revenue requirement.

Revenue Requirement

The appropriate revenue requirement is $115,423. Cedar Acres shall be allowed an annual revenue increase of $79,972 (225.59 percent) for water. This will allow the Utility the opportunity to recover its expenses and generate a 10-percent margin as discussed above. As noted earlier, this docket is the Utility’s first rate case since its inception. It is the first rate change in almost 30 years, when rates were originally set by Sumter County in the mid 1980s. The revenue requirement calculation is shown on Table 8-1 below:

Table 8-1

|  |  |  |
| --- | --- | --- |
|  |  | Water |
| Adjusted O&M expense |  | $94,198 |
| 10-Percent Margin (%) |  | x .1000 |
| 10-Percent Margin ($)  |  | $9,420 |
| Adjusted O&M expense |  | 94,198 |
| Depreciation expense (Net) |  | 2,653 |
| Amortization |  | 0 |
| Taxes Other Than Income |  | 9,152 |
| Income Taxes |  | 0 |
| Revenue Requirement  |  | $115,423 |
| Less Test Year Revenues |  | 35,451 |
| Annual Increase |  | $79,972 |
| Percent Increase/(Decrease) |  | 225.59% |
|  |  |  |

Water System Rate Structure and Rates

The Cedar Acres water system is located in Sumter County within the Southwest Florida Water Management District. The Utility provides water service to approximately 319 residential customers. The percentage of residential zero gallon customer bills reflected during the test year indicates a non-seasonal customer base. The average residential water demand is approximately 5,797 gallons per month. Currently, the Utility’s rate structure consists of a monthly base facility charge (BFC) of $9.00 for all meter sizes and a uniform gallonage charge of $.045 per 1,000 gallons, which is billed bi-monthly.

Our staff performed an analysis of the Utility’s billing data in order to evaluate various BFC cost recovery percentages and the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility’s customers; and (3) implement, where appropriate, water conserving rate structures consistent with Commission practice.

We find that 40 percent of the water revenues shall be generated from the BFC, which will provide sufficient revenues to design a uniform gallonage charge that will encourage conservation. Based on a recommended revenue increase of 225.59 percent, the residential consumption can be expected to decline by 6,482,000 gallons resulting in anticipated average residential demand of 4,103 gallons per month. We find a 29.2 percent reduction in test year residential gallons for ratesetting purposes and corresponding reductions of $898 for purchased power, $431 for chemicals, and $63 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $114,031.

Further, we find it appropriate that the customers continue to be billed on a bi-monthly basis to avoid the additional costs associated with reading meters and billing on a monthly basis. Based on the foregoing, we find 40 percent of the water revenues be generated from the BFC. The traditional BFC and uniform gallonage charge rate structure should be approved for all water customers and billed on a bi-monthly basis. A 29.2 percent reduction in test year residential gallons and corresponding reductions of $898 for purchased power, $431 for chemicals, and $63 for RAFs shall be made to reflect the anticipated repression. The approved rate structure and rates are shown on Schedule No. 4-B.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. The recommended rate structure and rates are shown on Schedule No. 4-B.

Four-Year Rate Reduction for Amortized Rate Case Expense

(Final Agency Action)

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated operating margin, and the gross-up for RAFs. The total reduction is $393 for water.

The water rates shall be reduced as shown on Schedule No. 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Cedar Acres is 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.

Escrow account established for the meter replacement program

We have approved a meter replacement program for the Utility. We find, and the Utility has agreed, that in order to assure that the meters are replaced and the customers are protected, $2,352 shall be escrowed bi-monthly, based on the Utility’s billing cycle, for a total of $14,110 annually ($14,110÷6). As discussed above, the escrowed funds include the 10 percent reduction of the Finance Manager’s salary, the President’s reduced salary, and all board of directors’ fees. The escrowed funds will be used to replace 78 meters a year for a total of 320 meters. In order for approval of funds to be released, the Utility shall submit support documentation of installation of meters and associated costs.

The security provided through an escrow agreement shall include the following terms and conditions as part of the agreement:

1. No monies in the escrow account may be withdrawn by the Utility without prior written authorization of the Commission Clerk, or his or her designee;
2. The escrow account shall be an interest bearing account;
3. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
4. If a refund to the customers is not required, the interest earned by the escrow account shall revert to Cedar Acres;
5. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
6. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
7. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
8. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and
9. The account must specify by whom and on whose behalf such monies were paid.

Cedar Acres shall maintain a record of the amount escrowed, and the amount of revenues that are subject to refund.

Temporary Rates

(Final Agency Action)

This Order approves an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, we find that the recommended rates be approved as temporary rates. Cedar Acres shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

Cedar Acres shall be authorized to collect the temporary rates upon our staff’s approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of $53,354. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

1. No monies in the escrow account may be withdrawn by the Utility without the prior written approval of the Commission Clerk, or his or her designee;
2. The escrow account shall be an interest bearing account;
3. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
4. If a refund to the customers is not required, the interest earned by the escrow account shall revert to Cedar Acres;
5. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
6. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
7. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
8. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement; and,
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by Cedar Acres, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Cedar Acres shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. Rule 25-30.360(6), F.A.C., requires the Utility to file reports with the Commission Clerk’s Office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. However, by Rule 25-30.360(1), the Commission has the authority to order alternative requirements for refunds. Cedar Acres is on a bi-monthly billing schedule. Therefore, pursuant to Rule 25-30.360(1), we order the Utility to file reports bi-monthly, no later than the 20th of the billing month, indicating the monthly amount and total amount of money subject to refund*.* The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Late Payment Charge

The Utility requested a $5 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility’s request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

The Utility has a total of 319 customer accounts and, according to the Utility, there are a substantial amount of customers that do not pay by the due date of each billing cycle. Based on historical data and the bi-monthly billing cycle, the Utility anticipates it will prepare late payment notices for approximately 99 accounts per billing cycle. In the past, we have allowed 10-15 minutes per account per month for clerical and administrative labor to research, review, and prepare the notice.[[14]](#footnote-14) The Utility indicated it will spend approximately 12 hours per billing cycle processing late payment notices, which results in an average of approximately 7 minutes per account (720 minutes/99 accounts) and is consistent with our decisions. The late payment notices will be processed by the account manager, which results in labor cost of $4.24 (12x$35/99) per account. The cost basis for the late payment charge, including the labor, is shown below.

**Table 13-1**

**Cost Basis for Late Payment Charge**

|  |  |
| --- | --- |
| Labor | $4.24  |
| Printing | $0.05  |
| Postage | $0.49  |
| Supplies | $0.12  |
| Total Cost | $4.90  |

Since the late 1990s, we have approved late payment charges ranging from $2.00 to $7.00.[[15]](#footnote-15) The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those who are cost causers.

Based on the above, we find Cedar Acres’ request to implement a $5 late payment charge is approved. Cedar Acres shall be required to file a proposed customer notice to reflect the Commission-approved charge. The approved charge shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Initial Customer Deposits

Rule 25-30.311, F.A.C., contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each company’s tariff shall contain their specific criteria for determining the amount of initial deposits. Cedar Acres’ current tariff does not authorize the Utility to collect initial customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of rate payers. In addition, collection of customer deposits is consistent with one of the fundamental principles of rate making—ensuring that the cost of providing service is recovered from the cost causer.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer’s usage and the Utility’s collection of the revenues associated with that usage. Our practice has been to set initial customer deposits equal to two months bills based on the average consumption for a 12-month period for each class of customers. Our staff have reviewed the customer usage data and developed initial customer deposits for new residential and general service customers based on two times the average consumption.

 We find that the appropriate initial customer deposit shall be $60 for the residential 5/8” x 3/4" meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The Utility shall file revised tariff sheets consistent with this Order. The approved customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility shall be required to collect the approved initial customer deposits until we authorize them to be changed in a subsequent proceeding.

Violation Reconnection Charge

We are authorized by Section 367.091, F.S., to establish, increase, or change a rate or charge other than monthly rates or service availability charges. The Utility requested violation reconnection charges of $80 for normal hours and $105 for after hours. The Utility’s request for violation reconnection charges was accompanied by its reason for requesting the charges, as well as the cost justification required by Section 367.091, F.S.

Pursuant to Rule 25-30.460(1)(c), F.A.C., a violation reconnection is a charge that is levied prior to reconnection of an existing customer after discontinuance of service for cause. Our practice has been to place the burden of such a charge on the cost causer rather than the general body of ratepayers. This is consistent with one of the fundamental principles of rate making—ensuring that the cost of providing service is recovered from the cost causer.

Cedar Acres does not have any on-site personnel to perform disconnections. Therefore, a third party vendor will be used for this function. The third party vendor’s estimate reflects 2.2 hours of labor, which includes driving time of 74 miles round trip and performing the disconnection and subsequent reconnection. The third party vendor’s estimate also reflects transportation cost at $0.50 per mile, which is less than the current 2015 IRS standard mileage rate of $0.575. The Utility’s requested charges are reasonable and consistent with our decisions.[[16]](#footnote-16) The Utility’s cost justification is summarized below in Table 15-1.

**Table 15-1**

**Cost Basis for Violation Reconnection Charge**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **During Business Hours** | **Cost** |  | **After Hours** | **Cost** |
| Labor ($20.50/hr. x 2.2 hrs.) | $ 42.10 |  | Labor ($30.75/hr. x 2.2 hrs.) | $ 67.75 |
| Transportation ($0.50 x 74 miles) | $ 37.00 |  | Transportation ($0.50 x 74 miles) | $ 37.00 |
| Total | $ 79.10 |  | Total | $104.75 |

***Source: Response to staff inquiry***

Based on the above, we approve the Utility’s request for violation reconnection charges of $80 for normal hours and $105 for after hours. Cedar Acres shall be required to file a proposed customer notice to reflect the our approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charges shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Non-Sufficient Funds (NSF) charge

Section 367.091, F.S., requires that we approve rates, charges, and customer service policies. We have authority to establish, increase, or change a rate or charge. We find that Cedar Acres shall be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5) and 68.065(2), F.S., the following NSF charges may be assessed:

1. $25, if the face value does not exceed $50,

2. $30, if the face value exceeds $50 but does not exceed $300,

3. $40, if the face value exceeds $300,

4. or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges is consistent with our prior decisions.[[17]](#footnote-17) Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, Cedar Acres shall revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The NSF charges shall be effective on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice.

Adjustment of Books to Reflect Commission’s Decision

(Final Agency Action)

To ensure that the Utility adjusts its books in accordance with the our decision, Cedar Acres shall provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility’s books and records. In an effort to assist the Utility in its requirement, Attachment A provides a breakdown by primary account for plant and accumulated depreciation that reflects the year-end balances at September 30, 2014. However, in the event the Utility needs additional time to complete the adjustments, notice shall be provided within 7 days prior to deadline. Upon providing good cause, our staff has administrative authority to grant an extension of up to 60 days.

The Utility’s support documentation shall include a list, by issue, of all our ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. All support documentation shall follow the guidelines set forth in Rule 25-30.450, F.A.C., which states:

In each instance, the Utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the Utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

 Based on the foregoing, it is

 ORDERED by the Florida Public Service Commission that Cedar Acres, Inc.’s application for an increase in rates and charges is hereby 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 are hereby approved in every respect. It is further

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

 ORDERED that Cedar Acres, Inc.’s quality of service is unsatisfactory. The Finance Manager’s salary shall be reduced by 10 percent. The 10 percent reduction, the President’s decreased salary and the Board of Directors’ Fees, for a total of $8,350, shall be placed in escrow annually for meter replacement. These funds will be escrowed annually under the provisions of the meter replacement program in this Order. It is further

 ORDERED that Cedar Acers, Inc., must file with our Clerk compliance reports that address: all corrective measures the utility has taken to fix its billing issues, including the concerns raised by its customers; all measures taken to address customer concerns and complaints; all measures taken to comply with Commission, DEP, and DOH regulations, including boil water notices; and a billing analysis.  The first compliance report is due 6 months from the issuance date of the consummating order making this Order final, and the second is due 12 months from the date of the consummating order.  It is further

 ORDERED that the appropriate average test year rate base for Cedar Acres, Inc. is $64,137. It is further

 ORDERED that the appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. It is further

 ORDERED that the appropriate test year revenues for Cedar Acres, Inc. $35,451. It is further

 ORDERED that the appropriate amount of total operating expense for the Utility is $106,003. It is further

 ORDERED that Cedar Acres, Inc. shall implement a meter replacement program. The Utility shall escrow $2,352 every two months, $14,110 annually, to be used to replace meters. The Utility shall replace 78 meters every year for a total of 320 meters. It is further

 ORDERED that in order for approval of funds to be released from the escrow account, Cedar Acres, Inc. must submit support documentation of installation of meters and associated costs. It is further

 ORDERED that the Utility shall maintain a record of the amount escrowed, and the amount of revenues subject to refund. It is further

 ORDERED that the appropriate revenue requirement is $115,423. It is further

 ORDERED that the approved rate structures and monthly water rates are shown on Schedule No. 4-B. It is further

 ORDERED that Cedar Acres, Inc. shall filed revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective or service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C.. It is further

 ORDERED that the approved rates shall not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

 ORDERED that, subject to conditions set forth in the body of this Order, following the expiration of the four-year rate case expense recovery period, water rates shall be reduced as shown on Schedule No. 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. It is further

 ORDERED that Cedar Acres, Inc. shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than on month prior to the actual date of the required rate reduction. If the Utility files this in conjunction with a price index or pass-through rate adjustment, separate shall be filed for the price index and/or pass through increase or decrease and the reduction in the rate due to the amortized rate case expense. It is further

 ORDERED that the approved rates shall be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Cedar Acres, Inc. shall filed revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped date of approval on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

 ORDERED that the temporary rates shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. The approved rates, approved for the Utility on a temporary basis, collected by the Utility shall be subject to the refund provisions. It is further

 ORDERED that, after the increased rates are in effect, pursuant to Rule 25-30.360, F.A.C., the Utility shall file reports with the Commission’s Office of Commission Clerk bi-monthly, no later than the 20th day of the billing month, indicating the monthly amount and total amount of money subject to refund. The report filed shall also indicate the statue of the security being used to guarantee repayment of any potential refund. It is further

 ORDERED that Cedar Acres, Inc. shall be allowed to implement a $5 late payment charge. The Utility shall file a proposed customer notice to reflect the approved charge. The approved charge shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1). It is further

 ORDERED that the approved late payment charge shall not be implemented until our staff has approved the proposed customer notice. Cedar Acres, Inc. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

 ORDERED that the appropriate initial customer deposit is $60. The initial customer deposit for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water. The Utility shall file revised tariff sheets consistent with this Order. The approved customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility shall be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding. It is further

 ORDERED that Cedar Acres, Inc. shall be allowed to implement violation reconnection charges of $80 for normal hours and $105 for after hours. Cedar Acres, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved charges shall not be implemented until our staff has approved the proposed customer notice. Cedar Acres, Inc. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Cedar Acres, Inc. shall be allowed to collect Non-Sufficient Funds (NSF) charges. The Utility shall revise its tariff sheets to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5), F.S. The approved NSF charges shall be effective on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

 ORDERED that the approved charges shall not be implemented until our staff has approved the proposed customer notice. Cedar Acres, Inc. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

 ORDERED that Cedar Acres, Inc. shall be required to provide proof, within 90 days of the effective date of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. In the event the Utility needs additional time to complete the adjustments, notice shall be provided within 7 day prior to the deadline. Upon providing good cause, Commission staff has administrative authority to grant an extension of up to 60 days. It is further

 ORDERED that the provisions of this Order, issued as proposed agency action, except with regards to four-year rate reduction, granting temporary rates, and proof of adjustments to books and records, 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, F.A.C., is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee Florida 32399-0850, by the close of business on the date set forth in the “Notice of Further Proceedings” attached hereto. It is further

 ORDERED that, if no person whose substantial interests are affect by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. The docket shall remain open for staff’s verification that the revised tariff sheets and customer notice have been filed by Cedar Acres, Inc. and approved by our staff. This docket shall remain open to allow staff to complete the management audit of the Utility, and to monitor the meter replacement program, and for the Utility to file compliance reports as required by this Order. Once these actions are complete this docket shall be closed administratively. It is further

 By ORDER of the Florida Public Service Commission this 19th day of November, 2015.

|  |  |
| --- | --- |
|  | /s/ Carlotta S. Stauffer |
|  | CARLOTTA S. STAUFFERCommission Clerk |

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399

(850) 413‑6770

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

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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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

 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.

 Except where identified as a Final Agency Action, the action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 10, 2015.

 In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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



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|   | **CEDAR ACRES, INC.** |   | **SCHEDULE NO. 1-B** |
|   | **TEST YEAR ENDED 09/30/14** |  | **DOCKET NO. 140217-WU** |
|   | **ADJUSTMENTS TO RATE BASE** |  |   |
|   |  |  | **WATER** |
|   | **UTILITY PLANT IN SERVICE** |  |   |
|   | To reflect appropriate plant in service. |  | ($307,337) |
|   |  |  |  |
|   | **LAND AND LAND RIGHTS** |  |   |
|   | 1. To reflect land designated to the Utility.  |  | ($43,300) |
|   | 2. To remove parcel of land not used in Utility business. |  | (2,220) |
|   |  Total |  | ($45,520) |
|   |  |  |   |
|   | **ACCUMULATED DEPRECIATION** |  |   |
|   | 1. To reflect appropriate accumulated depreciation. |  | $266,912  |
|   | 2. To reflect an average adjustment. |  | 1,327  |
|   |  Total |  | $268,239  |
|   |  |  |  |
|   | **WORKING CAPITAL ALLOWANCE** |  |   |
|   | To reflect 1/8 of test year O & M expenses. |  | $11,775  |
|   |   |   |   |





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|   | **CEDAR ACRES, INC.** | **SCHEDULE NO. 3-B** |
|   | **TEST YEAR ENDED 09/30/14** | **DOCKET NO. 140217-WU** |
|   | **ADJUSTMENTS TO OPERATING INCOME** | **PAGE 1 OF 2** |
|   |  |  |   |
|   |  | **WATER** |   |
|   | **OPERATING REVENUES** |  |   |
|   | To adjust Utility revenues to audited test year amount. | $6,813  |   |
|   |  |  |   |
|   | **OPERATION AND MAINTENANCE EXPENSES** |  |   |
| 1. | Salaries and Wages - Employees (601) |  |   |
|   | Adjustment to annualize increased salary per audit. | $1,086  |   |
|   | To reduce Finance Manager's salary. | (16,878) |   |
|   |  Total | ($15,792) |   |
| 2. | Salaries and Wages - Officers (603) |  |   |
|   | Allow salary for President. | $4,142  |   |
|   | To reduce President's salary and Board fees per Commission vote | (5,492) |   |
|   |  Total | ($1,350) |   |
| 3. | Purchased Power (615) |  |   |
|   | To reflect actual test year expense. | ($226) |   |
|   | To remove amount associated with pump at unused wellsite. | (148) |   |
|   |  Total | ($374) |   |
| 4 | Contractual Services - Professional (632) |  |   |
|   | To remove temporary office help. | ($3,488) |   |
|   | To remove amount for 2012 income tax preparation. | (985) |   |
|   | To remove estimate for yearly annual report. | (2,100) |   |
|   | To remove amount for non-recurring consulting expense. | (425) |   |
|   | To reflect appropriate estimate amount for yearly annual report. | (330) |   |
|   | To reflect five-year amortization of non-recurring expenses. | 1,466  |   |
|   | To reflect meter replacement program per Commission vote. | 14,110  |   |
|   |  Total | $8,247  |   |
| 5 | Contractual Services - Testing (635) |  |   |
|   | To reflect addition of FDEP required tri-annual testing. | $885  |   |
|   | Reduce account for duplicate invoice. | (595) |   |
|   |  Total | $290  |   |
| 6. | Rent Expense (640) |  |   |
|   | Include allowance for annual Rent Expense. | $9,144  |   |
| 7. | Regulatory Commission Expense (665) |  |   |
|   | Allowance for rate case expense amortized over four years. | $341  |   |
|   |   |  |   |

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|   | **CEDAR ACRES, INC.** | **SCHEDULE NO. 3-B** |
|   | **TEST YEAR ENDED 09/30/14** | **DOCKET NO. 140217-WU** |
|   | **ADJUSTMENTS TO OPERATING INCOME** | **PAGE 2 OF 2** |
|   |  |  |  |
|   |  | **WATER** |   |
| 8. | Miscellaneous Expense (675) |  |   |
|   | Remove unsupported error on deposit.  | ($18) |   |
|   | Remove lawn maintenance for unused parcel of land & non-Utility lot. | (1,050) |   |
|   | To reflect amortization of plant repairs and maintenance. | 875  |   |
|   | Allowance for computer. | 83  |   |
|   | Allowance for printer. | 25  |   |
|   | Allowance for operating software. | 150  |   |
|   | Allowance for accounting software.  | 283  |   |
|   |  Total | **$348**  |   |
|   |  |  |   |
|   | **TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** | **$854**  |   |
|   |  |  |   |
|   |  |  |   |
|   | **DEPRECIATION EXPENSE** |  |   |
| 1. | To reflect appropriate depreciation expense. | ($4,464) |   |
|   |  |  |   |
|   | **TAXES OTHER THAN INCOME** |  |   |
| 1. | To adjust property tax for unused parcel of land. | ($12) |   |
| 2. | To adjust payroll tax for recommended salaries. | 2,618  |   |
| 3. | To adjust for regulatory assessment fees on test year revenue. | 307  |   |
|   |  Total | $2,913  |   |
|   |   |   |   |





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| **Cedar Acres, Inc.** |  |  |  |
| **Plant & Accumulated Depreciation Balances** |  |  |  |
| **Docket No. 140217-WU** |  |  |  |
| **Water** |
| **Test Year Ended 9/30/14** |
| **Account** |   |   |   | **Accumulated** |
| **No.** | **Description** | **UPIS** |   | **Depreciation** |
| 307 | Wells and Springs | $32,158  |  | $4,183  |
| 310 | Power Generation Equipment | 23,971  |  | 3,878  |
| 311 | Pumping Equipment | 890  |  | 144  |
|   |  | $57,019  |  | $8,205  |
|   |  |  |  |   |
|   |   |  |  |  |

1. Order No. PSC-09-0541-FOF-WU, issued August 4, 2009, in Docket No. 080098-WU, In re: Application for certificate to provide water service in Sumter County by Cedar Acres, Inc. [↑](#footnote-ref-1)
2. Order Nos. PSC-13-0140-PAA-WU, issued March 25, 2013, in Docket No. 120183-WU, In re: Application for staff assisted rate case in Lake County by TLP Water, Inc.; PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc. [↑](#footnote-ref-2)
3. Order Nos. PSC-14-0272-PAA-WS, issued May 29, 2014, and PSC-14-0323-CO-WS, issued June 24, 2014, in Docket No. 140006-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. [↑](#footnote-ref-3)
4. Order No. PSC-11-0368-PAA-WU, issued September 1, 2011, in Docket No. 100128-WU, In re: Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc. [↑](#footnote-ref-4)
5. Order No. PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S & L Utilities, Inc. [↑](#footnote-ref-5)
6. Sunshine Utilities of Central Florida v. Florida Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993) [↑](#footnote-ref-6)
7. In reaching its decision, the First DCA cited Metropolitan Dade County Water & Wastewater Bd. v. Community Utilities Corp., 200 So. 2d 831, 833 (Fla. 3d DCA 1967) [↑](#footnote-ref-7)
8. Specifically, the Commission price indices used were 2.41 percent for 2012, 1.63 percent for 2013, 1.41 percent for 2014, and 1.57 percent for 2015. [↑](#footnote-ref-8)
9. Order Nos. PSC-10-0124-PAA-WU, issued March 1, 2010, in Docket No. 090244-WU, In re: Application for staff-assisted rate case in Lake County by TLP Water, Inc.; and PSC-09-0790-PAA-WU, issued November 30, 2009, in Docket No. 090170-WU, In re: Application for staff-assisted rate case in Lee County by Mobile Manor Water. [↑](#footnote-ref-9)
10. Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc. [↑](#footnote-ref-10)
11. Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc. [↑](#footnote-ref-11)
12. Issued July 16, 2013, in Docket No. 120270-SU, In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC. [↑](#footnote-ref-12)
13. The operating margin using operating ratio methodology equals $9,420 and the return on investment using rate base methodology equals $5,606. [↑](#footnote-ref-13)
14. Order Nos. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of $14.00 in Polk County by West Lakeland Wastewater.; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; and PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc. [↑](#footnote-ref-14)
15. Order Nos. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.; PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; PSC-09-0752-PAA-WU, in Docket No. 090185-WU, issued November 16, 2009, In re: Application for grandfather certificate to operate water utility in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.; PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; and PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of $14.00 in Polk County by West Lakeland Wastewater; PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc. [↑](#footnote-ref-15)
16. Order No. PSC-09-0263-TRF-WU, in Docket No. 080562-WU, issued April 27, 2009, In re: Request for approval of amendment to connection/transfer sheets, increase in returned check charge, amendment to miscellaneous service charges, increase in meter installation charges, and imposition of new tap-in fee, in Marion County, by East Marion Sanitary Systems Inc., the Commission approved a normal hour $45 disconnection charge and a $50 reconnection charge for a combined total of $90 for the violation reconnection. The combined after hours charge was approved at $155 for the violation reconnection. [↑](#footnote-ref-16)
17. Order Nos. PSC-14-0198-TRF-SU, issued May 2, 2014, in Docket No. 140030-SU, In re: Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc., and PSC-13-0646-PAA-WU, issued December 5, 2013, in Docket No. 130025-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc. [↑](#footnote-ref-17)