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FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.	DOCKET NO. 150102-SU ORDER NO. PSC-16-0013-PAA-SU ISSUED: January 6, 2016

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 GRANTING UTILITIES, INC. OF SANDALHAVEN'S
APPLICATION FOR RATE INCREASE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four year rate reduction and proof of adjustments, 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

Utilities, Inc. of Sandalhaven (Sandalhaven or utility) is a Class B wastewater utility serving 835 wastewater customers in Charlotte County. Water service to the area is supplied by Charlotte County. According to the utility's 2014 annual report, the utility had operating revenues of $668,757 and operating expenses of $841,708.

Sandalhaven has been in existence since 1983 and was granted an original certificate in 1995 following Charlotte County's adoption of a resolution giving the Florida Public Service Commission (Commission) jurisdiction over privately owned water and wastewater utilities.[1] Effective September 25, 2007, this Commission's jurisdiction was rescinded by Charlotte County and the certificate was cancelled.[2] Subsequently, in 2013, Charlotte County transferred jurisdiction back to this Commission. Effective February 12, 2013, Sandalhaven was granted

[1]Order No. PSC-95-0478-FOF-SU, issued April 13, 1995, in Docket No. 941341-SU, In re: Application for certificate to provide wastewater service in Charlotte County by Sandalhaven Utility, Inc.
[2]Order No. PSC-07-0984-FOF-WS, issued December 10, 2007, in Docket No. 070643-WS, In re: Resolution No. 2007-143 by Charlotte County Board of Commissioners, in accordance with Section 367.171, F.S., rescinding Florida Public Service Commission jurisdiction over private water and wastewater systems in Charlotte County.

Certificate No. 567-S.[3] This Commission set rate base for the utility in 2007.[4] However, the utility's current rates were established by Charlotte County by Resolution 2012-209, adopted November 13, 2012, based upon a December 31, 2010 test year.

On June 4, 2015, Sandalhaven filed its application for the rate increase at issue in the instant docket. A deficiency letter was sent to the utility on July 1, 2015, and corrections to the minimum filing requirements (MFRs) were filed on July 6, 2015, which was established as the official date of filing pursuant to Section 367.083, Florida Statutes (F.S.). The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the period ended December 31, 2014. The utility is requesting an increase to recover reasonable and prudent costs for providing service and a reasonable rate of return on investment, including pro forma plant improvements. Sandalhaven requested an interim revenue increase of $724,062 (106.2 percent) and a final revenue increase of $939,540 (137.9 percent).

The system was originally designed to serve the communities in the northeastern part of the territory. The wastewater treatment plant (WWTP) was initially permitted for 150,000 gallons per day (gpd), and the treated effluent was disposed of as reclaimed water for irrigation at the Wildflower Golf Course (WGC). The utility was aware that WGC had been slated for residential development and would ultimately become unavailable for effluent disposal. Due to the expected development of WGC, and having been approached by developers regarding growth, Sandalhaven began exploring options for handling the anticipated wastewater treatment demands. After studies that included interconnection with nearby utilities and expansion of the WWTP with the associated drilling of a deep-injection well for disposal, Sandalhaven opted for interconnection with Englewood Water District (EWD) as the least-cost solution, as was acknowledged in the Commission's Order in the last rate case. The interconnection was completed in April 2007, and initially only served new customers from the southern portion of the utility's wastewater service territory. These customers had no connection to the WWTP, so interconnection with EWD was their only treatment option. With the installation of isolation valves at strategic locations, a few developments could be served by either EWD or the WWTP, but the oldest subdivisions could only be served by the WWTP until a project to redirect the flows from those customers was completed. Sandalhaven anticipated that, with the completion of this flow redirection project, it would seek to decommission its WWTP.

The flow redirection project (also referred to as a diversion project) was planned to be implemented with the application of Phase II rates in the utility's last Commission rate case. However, the Board of County Commissioners of Charlotte County (County) rescinded our jurisdiction of privately-owned water and wastewater systems during the pendency of the rate case. This Commission's Phase I rates were implemented, but the Phase II rates with the associated pro forma projects were not. During the period that Sandalhaven was regulated by the County (2007 to 2013), the utility petitioned for and received a rate increase from the County

[3]Order No. PSC-13-0178-FOF-SU, issued April 29, 2013, in Docket No. 130053-SU, In re: Application for grandfather certificate to operate wastewater utility in Charlotte County by Utilities, Inc. of Sandalhaven.
[4]Order No. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, In re: Application for rates in Charlotte County by Utilities, Inc. of Sandalhaven.

and the WWTP was rerated to 99,000 gpd in response to recommendations from a Capacity Analysis Report submitted to the Florida Department of Environmental Protection (DEP). When the County transferred jurisdiction back to this Commission in 2013, the rates and charges established by the County were approved. Sandalhaven did not proceed with the diversion project while under the County's jurisdiction.

In 2014, DEP received a complaint from representatives of the Fiddlers Green homeowners association regarding leaching of wastewater into surrounding areas. After investigation, DEP derated Sandalhaven's permitted capacity to 45,000 gpd. Sandalhaven directed all possible flows to the EWD interconnection, but was unable to divert the flows from the oldest developments. During peak occupancy times, the utility had no option but to exceed its permitted capacity due to the demand from these customers. Thus, in October 2014, DEP issued a Consent Order that required the utility to divert all flows from the WWTP to EWD and decommission the WWTP. The Consent Order directed the diversion project to be completed by October 1, 2015, with the decommissioning of the WWTP to be completed within 60 days of the diversion. The Consent Order contained penalties for failure to timely comply with these requirements unless the utility could show that any delay was due to circumstances beyond its control. Sandalhaven was unable to meet this deadline due to delays the power company experienced in getting necessary easements. The utility requested and received an extension of the interconnection date from DEP. The diversion was completed November 2, 2015.

We have jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.101, and 361.121, F.S.

DECISION

I. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, we are required to determine the overall quality of service provided by a utility, 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 DEP and the county health department over the preceding three-year period shall be considered in addition to customer comments or complaints.

Quality of Utility's Product and Operating Conditions of the Utility's Facilities

Sandalhaven provides wastewater service only. Although the utility no longer operates a WWTP, during the test year its operation of the wastewater treatment system was subject to various environmental requirements such as permitting, testing, and discharge monitoring under the jurisdiction of DEP. During the last two Compliance Inspections in 2011 and 2013, DEP found some minor out-of-compliance conditions at the WWTP, which were addressed by the utility. The overall operation of the plant was found to be satisfactory.

As noted in the case background, in 2014 DEP received a complaint from a customer regarding apparent leaching of wastewater from the percolation ponds to the surrounding area. After investigation and supplemental monitoring by the utility revealed that the percolation ponds were no longer able to handle the demand, the utility entered into a Consent Order with DEP. The Consent Order required the utility to: 1) prevent potential impacts on neighboring properties by following the protocol described in the monitoring plan approved by DEP; 2) construct a wastewater collection/transmission system to divert flow from the WWTP to the EWD interconnection force main; and 3) inactivate or abandon the WWTP within 60 days of diverting the flow to EWD.

The diversion was to be completed by October 1, 2015; however, due to circumstances beyond its control, the utility was unable to meet this deadline. It requested and received an extension. The diversion was complete on November 2, 2015, and the utility began the WWTP decommissioning process immediately afterward.

The utility had long contemplated decommissioning the WWTP and diverting all flows to EWD for economic reasons, and would have done so with the implementation of the Phase II rates set in its last rate case. However, with the subsequent jurisdictional changes, these projects were put on hold until the failure of the percolation ponds in 2014. It then became clear that the diversion and decommissioning projects must be implemented for the safety of the nearby residents and the environment.

Prior to the complaint to DEP, Sandalhaven had operated and maintained its plant in a satisfactory manner as indicated by DEP's August 4, 2011 and August 5, 2013 Compliance Inspection reports. Although leaching of wastewater from percolation ponds to the surrounding area is a serious problem with a lengthy resolution process, the utility acted responsibly by complying with all DEP requirements as expeditiously and economically as possible. When Sandalhaven was notified of the problem by DEP, it hired an engineering firm to determine the source. When the percolation ponds were determined to be the problem, the utility met with DEP and formulated a corrective action plan, which DEP approved. The utility then proceeded to implement its corrective action plan to resolve the problem. Sandalhaven exercised caution by acting only under DEP supervision within DEP's consent order process. Sandalhaven is complying with the terms of DEP's consent order.

On September 15, 2015, our staff inspected the utility's plant. Although the WWTP is being decommissioned, the 13 lift stations were inspected and were found to be operational and in good repair. Based on Sandalhaven's status with DEP and our staff's on-site observations, we find that the operational condition of Sandalhaven's wastewater system is satisfactory.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on September 24, 2015, at the Tringali Community Center in Englewood, Florida. Of the 73 customers who were present at the meeting, 13 customers signed up to speak. As of November 17, 2015, 94 customers have sent written comments to the Commission. Four of the customers who sent written comments also spoke at the customer

meeting. The majority of customers' comments, both written and spoken at the customer meeting, expressed objections to various aspects of the rate increase.

The rate increase objections ranged from general disagreement with raising the rates to statements regarding specific ratemaking elements such as return on equity, depreciation, and items that should or should not be considered in setting the rates. In addition to the rate increase, the customers had concerns or questions about: (1) leakage from the WWTP; (2) paying for unrealized growth or future customers; (3) suggestions for alternative methods of determining the rate increase; and (4) the billing error related to interim rates. These concerns are discussed below.

Leakage

Several customers from the Fiddlers Green neighborhood, which is adjacent to the WWTP, expressed concern about wastewater from the percolation ponds leaching into the surrounding area, and the utility's slow response to correct the situation. However, the percolation ponds did not, at that point, have a history of failure, and the utility had no way of determining if they were the source of the standing water without pursuing a lengthy study. Given the utility's DEP obligations regarding the issue, its most responsible avenue was to address the issue with DEP through the complaint investigation and Consent Order process as stated earlier. Sandalhaven was given the results of DEP's complaint inspection on May 5, 2014. Within two months it had performed the study needed to determine that the percolation ponds were the source of the problem and met with DEP to discuss its proposed corrective action plan. Staff believes the utility did not delay taking action, but rather responded with appropriate caution.

At this time Sandalhaven has diverted all flows from the WWTP to EWD and is in the process of decommissioning the WWTP. Once this process is completed, we are of the opinion that the problems associated with living in close proximity to a WWTP, from odor to leakage to large sludge-hauling trucks, will be alleviated.

Growth

Several customers expressed a belief that the rate increase was either to pay for infrastructure built to support growth that did not materialize, or to fund future growth. Neither of these viewpoints is correct. In the last rate case, the utility did anticipate future growth based on developers that approached it for service to planned developments. With respect to the physical aspects of the system, at the beginning of the last rate case, the interconnection with EWD was not yet completed and all current customers were served by the WWTP. Prior to the Order being issued in that case, the interconnection was completed and available to serve new customers. Several of the customers who wrote to us may not be aware that they are from some of the developments that can only be served by the interconnection to EWD.

With respect to the regulatory aspects of the last rate case, recognizing that many customers could still be served by the WWTP prior to the plant being decommissioned, we ordered that the interconnection components-the force main, primary master lift station, and the purchased treatment capacity-be assigned a non-used and useful adjustment for the Phase I rates.

This shielded the current customers from paying for future growth. The interconnection was completed in April 2007, and initially only served new customers from the southern portion of the utility's wastewater service territory. These customers had no connection to the WWTP, so interconnection with EWD was their only treatment option.

The capacity payments made in 2006 and 2007, included capacity needed for current, active customers and for the equivalent residential connections (ERCs) prepaid for by developers. Thus, the customers who were active at that time only paid their pro rata share for the capacity. As for the interconnection force main and the primary master lift station, the incremental costs of installing differently-sized pipes and fittings is incidental. This is because the major cost drivers of installing any size pipeline are the surveys, route selection, permitting, easements, excavation, etc., which would have to be paid each time new lines are installed. For this reason alone any responsible utility should size a force main to handle maximum expected flow. However, a force main only two inches smaller in diameter would have required pumping capacity more than three times higher than for the 12-inch force main that was installed, making the ongoing operational costs much higher over time. With the purchased treatment capacity being necessary to provide service to customers in the southern portion of its territory, the utility took advantage of economies of scale by avoiding the virtual doubling of labor costs (that would now have to be borne by current customers in the instant rate case), as well as greatly improving the operational efficiency of the system (saving on operation and maintenance costs since inception).

Likewise, according to the utility, the primary master lift station's receiving well was sized for maximum future usage, for the same reasons as the force main (the incremental materials cost is incidental compared to paying for labor multiple times to change it out as demand increases), but the pumps installed were sized to handle current demand to keep operating costs lower. We find that this was prudent since the cost to upgrade the pumps when needed is much less than the other master lift station components.

Now that the WWTP can no longer be used to provide wastewater treatment to any customers, all of Sandalhaven's customers are being served by the interconnection to EWD. The WWTP, prior to decommissioning, was incapable of handling the demand for even a fraction of Sandalhaven's customers connected to it, much less all of its current customers, so the utility had to have additional capacity. Because of the utility's actions in selecting the most cost-effective long term solution, together with the regulatory treatment from the last rate case and that proposed in the instant case, Sandalhaven's customers have been adequately shielded from the cost impacts of investment for future customers.

Customers' Suggested Alternatives for Determining a Rate Increase

Some of the alternative rate increase treatments suggested by customers included tying the percentage increase to inflation or to cost-of-living increases, keeping the interim rates, or making them equivalent to the rates of nearby city or county utilities. Unfortunately, we cannot set rates on these principles, but must abide by the requirements of our rules and statutes.

Billing Error

We granted the utility an interim rate increase by Order No. PSC-15-0320-PCO-SU, issued on August 10, 2015.[5] The customers were noticed of the correct interim rates. However, due to an administrative error, the customers' August bill did not reflect the correct interim rates approved by the Commission effective July 29, 2015. When the error was discovered, the utility worked with Commission staff to resolve the issue. The utility indicated that when customers called they would advise them of the course of action being taken to resolve the issue. Also, the utility worked with Commission staff to draft language which was included in its next billing cycle advising that the bill reflected the accurate lower interim rates and included a credit to correct the prior billing error. At the customer meeting held on September 24, 2015, the billing error was discussed and customers were advised of the procedures the company had implemented to correct the error.

We have reviewed the customer complaints found in our Complaint Tracking System for Sandalhaven from January 1, 2009, through November 5, 2015. There are 12 complaints all of which were billing complaints regarding the utility's erroneous application of its requested interim rates instead of the Commission-approved interim rates. The utility has now successfully resolved these complaints. No quality of service problems were reported to this Commission. A summary of all complaints and comments received is shown in Table 1.

Table 1
Number of Complaints by Source

Subject of Complaint	PSC's Records (CATS)	Utility's Records	DEP Records	Docket Correspondence	Customer Meeting
Billing Related	12	2		4	6
Opposing Rate Increase				83	13
Other[6]		3			
Quality of Service		4	3	4	3
Total*	12	9	3	91	22

* A complaint may appear twice in this table if it meets multiple categories.

Based on the above, we find that the utility has taken reasonable actions to comply with DEP's consent order and to address customer concerns. At this time all quality of service issues have been resolved. Therefore, we find that the quality of service provided by the utility is satisfactory.

[5] Order No. PSC-15-0320-PCO-SU, issued on August 10, 2015, in Docket No. 150102-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.
[6] Found not to be the utility's issue.

II. Rate Base

A. Audit Adjustments to Rate Base

In its response to the Commission staff audit report of the utility and affiliate transactions, Sandalhaven has agreed to the audit adjustments as set forth in the tables below.

Table 2
Description of Audit Adjustments

Audit Finding	**Description of Adjustment**
Audit Finding No. 1 – Sandalhaven	Reflect the appropriate UPIS balances.
Audit Finding No. 4 – Sandalhaven	Reflect the appropriate Land balance.
Audit Finding No. 6 – Sandalhaven	Reflect the appropriate amount of operating revenue and RAFs.
Audit Finding No. 8 – Sandalhaven	Reflect the appropriate amount of O&M Expense.
Audit Finding No. 1 – Affiliate (UI)	Reflect the correct allocated plant and accumulated depreciation for Transportation.
Audit Finding No. 2 – Affiliate (UI)	Reflect the correct allocated UPIS, accumulated depreciation and depreciation expense.

Source: Commission staff audit and utility responses to Commission staff data requests.

Based on the audit adjustments agreed to by the utility, we find that the adjustments set forth in Tables 3 and 4 shall be made to rate base and net operating income.

Table 3
Adjustments to Rate Base

Audit Finding	**Plant**	**Land**	**Accumulated Depreciation**
Audit Finding No. 1 – Sandalhaven	($14,954)		$3,707
Audit Finding No. 4 – Sandalhaven		$10,000	
Audit Finding No. 1 – Affiliate (UI)	($7,289)		$22,689
Audit Finding No. 2 – Affiliate (UI)	($10,968)		$3,578
Total	($33,211)	$10,000	$29,974

Source: Commission staff audit and utility responses to Commission staff data requests.

Table 4
Adjustments to Net Operating Income

Audit Finding	**Depreciation Expense**	**O&M Expense**	**Revenue**	**TOTI**
Audit Finding No. 1 – Sandalhaven	($778)			
Audit Finding No. 6 – Sandalhaven			($17,939)	($807)
Audit Finding No. 8 – Sandalhaven		$21,499		
Audit Finding No. 1 – Affiliate (UI)	$19,381			
Total	$18,603	$21,499	($17,939)	($807)

Source: Commission staff audit and utility responses to Commission staff data requests.

B. Test Year Rate Base Adjustments

Retirement of Wastewater Treatment Plant

In its filings, Sandalhaven made adjustments to reflect the retirement of its WWTP. Plant was decreased by $1,061,091, accumulated depreciation was decreased by $787,253, CIAC was decreased by $1,310,499, and accumulated amortization of CIAC was decreased by $1,071,361. There were concerns regarding the utility's retirement calculations and after several inquiries, the utility provided revised calculations in its response to our staff's fifth data request filed on October 26, 2015. Sandalhaven's revised adjustments included retirements to plant of $1,084,426, accumulated depreciation of $1,084,426, CIAC of $1,051,825, and accumulated amortization of CIAC of $1,051,825. Upon review of the Commission staff audit and the utility's responses to several data requests, we find that the revised adjustments to retire the wastewater treatment plant are appropriate.

The utility is proposing to retire CIAC of $1,051,825 due to the retirement of the wastewater treatment plant. Sandalhaven identified $628,734 of CIAC associated with Account 354.4 Structures & Improvements, $62,927 associated with Account 380.4 Treatment & Disposal, $185 associated with Lagoons, and $359,979 associated with plant capacity fees received from developments served prior to 2004. The total CIAC balance for the test year ended December 31, 2014, was $3,276,640. The utility is proposing to retire 32.1 percent of the total CIAC ($1,501,825 ÷ $3,276,640). The WWTP served approximately 855 ERCs. The total ERCs that could be served by the wastewater system (the WWTP plus the prepaid capacity at EWD) is approximately 2,175 ERCs. The ERC percentage served by the WWTP is 39.3 percent of the system capacity. Based on a comparison of the percentage of ERCs served by the WWTP (32 percent) to the percentage of CIAC associated with the WWTP (39 percent), we find that the utility's proposal to retire CIAC of $1,051,825 is appropriate and reasonable.

The utility's proposed plant balance retirement of $1,084,426 is based on the simple average balances of the plant accounts associated with the retirement of the WWTP. All additions and reclassifications to the treatment plant account balances since the prior rate case in

Docket No. 060285-SU have been audited and are fully supported by the utility. The WWTP was permanently taken offline on November 2, 2015, and the decommissioning process subsequently commenced. In its current filing, the utility did not record any salvage value for the plant components associated with the decommissioning of the WWTP. However, should the utility recover salvage value upon the completion of the decommissioning of the WWTP, the recovered salvage value shall be addressed in Sandalhaven's next rate case.

Rule 25-30.140(9)(a), F.A.C., states:

> (a) Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC.

In its filing, the utility reflected total CIAC amortization expense of $25,074, which included an amount of $1,869 classified as "tap fees." In its revised WWTP retirement calculations, Sandalhaven included a CIAC balance $359,979 for tap fees, but did not provide revised calculations for CIAC amortization expense. The appropriate amortization rate for tap fees is 0.025. We find that the CIAC amortization expense of $1,869 is understated and should be $8,999 ($359,979 x 0.025). The total CIAC amortization expense retired should be $32,154. As a result, CIAC amortization expense shall be increased by $7,080.

In its MFRs, the utility reflected an adjustment to decrease depreciation expense by $43,176, or a net decrease to depreciation expense of $18,102 ($43,176 - $25,074). The depreciation expense associated with the utility's revised plant retirement calculation is $44,096, or a decrease of $920 from the amount included in the utility's MFRs. The increase to net depreciation expense is $6,160 ($7,080 - $920). Accordingly, we find that the net depreciation expense shall be increased by $6,160.

We find that it is appropriate to reduce property taxes to reflect the retirement and decommissioning of the WWTP. Therefore, the utility shall be required to contact the Charlotte County Tax Appraiser about revising the appraised tangible property value. Further, Sandalhaven shall reflect any change in property taxes in its next pass through filing.

Based on these adjustments, plant shall be decreased by $23,335, accumulated depreciation shall be decreased by $297,173, CIAC shall be increased by $258,674, and accumulated amortization of CIAC shall be increased by $19,536. Corresponding adjustments shall also be made to decrease depreciation expense by $920 and increase CIAC amortization expense by $7,080, or a net increase to depreciation expense of $6,160.

Net Loss on Forced Abandonment

In its filing, Sandalhaven reflected an amortization expense of $10,412 amortized over 14.43 years to recover a net loss on abandonment of $150,237. The utility also estimated a cost of $156,000 to decommission the WWTP. In response to a Commission staff data request, Sandalhaven provided an invoice for a cost of $97,696 to decommission the WWTP. Based on the retirement adjustments discussed above, the utility will incur a net loss on forced abandonment of $97,696 based solely on the cost of removal and decommissioning of the WWTP.

Table 5
Net Loss on Forced Abandonment

Plant Balance	$1,084,426
Less Depreciation	$1,084,426
Less CIAC	$1,051,825
Plus Amortization of CIAC	$1,051,825
Net Loss on Rate Base	$0
Plus Cost to Remove	$97,696
Net Loss	$97,696

Source: Utility's response to Commission staff data requests.

Rule 25-30.433(9), F.A.C., Rate Case Proceedings, states:

> The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

For the purpose of calculating the amortization period pursuant to Rule 25-30.433(9), F.A.C., the net loss is $97,696 divided by zero, which results in zero years. Hence, Rule 25-30.433(9), F.A.C., is not applicable in this case since the retired asset is fully depreciated. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer time can be justified. In this case, we find that a recovery period of 10 years is appropriate and that the net loss of $97,696 shall be amortized over a 10-year period. This treatment is consistent with our recent decision regarding Orchid Springs

Development Corporation in Docket No. 140239-WS.[7] The amortization amount equates to the net loss of $97,696 divided by 10 years, or $9,770. The resulting adjustment is a decrease to amortization expense of $642 from the utility's proposed amortization expense of $10,412. Accordingly, we find that amortization expense shall be decreased by $642 to $9,770 and amortized over a period of 10 years.

Based on the above analysis, the plant shall be decreased by $23,335, accumulated depreciation shall be decreased by $297,173, CIAC shall be increased by $258,674, and accumulated amortization of CIAC shall be increased by $19,536. Corresponding adjustments shall also be made to increase net depreciation expense by $6,160. Sandalhaven shall reflect any change in property taxes in its next pass through filing. The amortization expense related to the cost of removal of the WWTP shall be decreased by $642 to $9,770 and amortized over a period of 10 years. After the expiration of the amortization period, the wastewater rates shall be reduced by $9,770, as shown on Schedule No. 4, to remove removal costs grossed-up for regulatory assessment fees (RAFs) and amortized over a 10-year period. The decrease in rates shall become effective immediately following the expiration of the 10-year recovery period of removal costs associated with the decommissioning of the utility's WWTP. Sandalhaven 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 expense.

C. Test Year Plant Adjustments

Section 367.081, F.S., provides that in fixing rates we shall consider facilities to be constructed within a reasonable time in the future, to be Used and Useful (U&U) if such property is needed to serve current customers. Costs associated with each of the pro forma plant items discussed below have been or are projected to be incurred within two years of the test year. Section 367.081, F.S., additionally provides that we shall approve rates for service which allow a utility to recover the full amount of environmental compliance costs.

Sandalhaven's initial filing contained two pro forma plant additions. Having reviewed the utility's filings and responses to data requests we find that several adjustments to the utility's requested pro forma plant additions are necessary. Table 6 below provides a summary of our approved pro forma plant additions.

[7] Order No. PSC-15-0569-PAA-WS, issued December 16, 2015, in Docket No. 140239-WS, In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.

Table 6
Pro Forma Plant Adjustments

Pro Forma Plant Items	**Initial MFR**	**Response from data request / Filing**	**Approved Amount**	**Documentation**
Diversion from WWTP to EWD	$696,129	$743,672	$742,256	Invoice / Work Order
Relocation of sewer pipe due to County road construction.	$200,000	$174,088	$0	Engineering estimate / utility opinion of probable construction cost
Total	$896,129	$917,760	$742,256	

Source: MFRs and utility's response to Commission staff data requests.

The work for the pro forma project to divert the flow from the WWTP to the EWD wastewater treatment plant was completed on November 2, 2015, and the flows have been diverted. The utility provided invoices for the work performed, and also provided schedules reflecting the capitalized time for Sandalhaven employees and interest expense during construction as support for the cost of the project. There was a retirement of $1,417 included in the upgrade of one of the lift stations. As such, $742,256 reflects the removal of the retirement from the utility's requested amount of $743,672.

The utility requested a pro forma plant increase of $200,000 to recover the cost to relocate existing sewer lines due to road improvements by Charlotte County. The utility has not supported this requested amount. The utility plans to complete its project in coordination with Charlotte County's construction schedule and assumes that the project will commence on July 1, 2016, and be completed on December 31, 2016. However, the actual completion date of the project is dependent upon Charlotte County's work schedule which is unknown at this time. Charlotte County's website indicates that as of November 17, 2015, permitting for this project is 85 percent complete and the construction schedule is yet to be determined. Further, the utility has not obtained any construction bids for the project. The utility submitted a self-prepared document entitled "Placida Road Force Main Relocations Opinion of Probable Construction Cost" which is not a signed bid for the construction cost of the project.

In its MFRs, Sandalhaven included a credit adjustment of $852 to the Accumulated Deferred Income Taxes (ADITs) balance to account for the deferred taxes associated with the addition of pro forma plant. Our adjustments to decrease pro forma plant result in a corresponding decrease to the deferred taxes associated with the pro forma plant additions. Based on the utility's calculation of ADITs associated with the pro forma plant additions included in Commission staff's audit work papers, we find that the appropriate amount of credit ADITs associated with the pro forma projects is $371. Accordingly, the credit ADITs of $852 shall be decreased by $481 to $371.

Based on the aforementioned, we find the pro forma amounts in Table 6 to be appropriate. Accordingly, we find that plant shall be decreased by $153,873. Corresponding adjustments shall be made to decrease accumulated depreciation and depreciation expense by

$4,870. An additional corresponding adjustment shall also be made to decrease credit ADITs by $481.

D. Used and Useful

The Sandalhaven wastewater system is composed of purchased wastewater treatment capacity through an interconnection with EWD, an interconnection force main, a primary interconnection master lift station, and a collection system. During the test year, a portion of the flows were treated by the utility's WWTP. The WWTP was considered 100 percent U&U for interim purposes. However, all flows are now directed to EWD for treatment, so no U&U percentage is needed for the WWTP.

Although our rules regarding U&U plant for wastewater treatment systems do not address purchased treatment capacity or interconnection plant, we find that a U&U analysis is appropriate for these items. Each of these items has unique characteristics that need to be taken into account. The purchased treatment capacity is most analogous to a conventional WWTP, and our analysis of the purchased capacity will closely parallel that of a WWTP. However, we find that the functional nature of the interconnection components warrants a slightly different treatment, using peak flows instead of average flows.

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. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary.

All wastewater collection systems experience I&I. The conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. While Sandalhaven no longer operates a WWTP, the effects of excessive I&I affect the flows billed to Sandalhaven. We calculate the allowable infiltration based on system parameters and allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Next the estimated amount of wastewater returned to the EWD from customers is calculated. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by EWD without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

The utility has 2,325 feet of 6-inch and 11,670 feet of 8-inch collecting mains. Given these parameters and performing the necessary conversions to express the result in gallons per year (gpy), the allowance for infiltration is 3,709,105 gpy.

The utility's records indicated that it billed for wastewater based on 19,343,000 gallons of water demand for its residential customers and 17,303,000 gallons of water demand for its non-residential customers during the test year. Thus, the allowance for inflow is 10 percent of the residential flow, or 1,934,300 gpy. Therefore, the total allowance for inflow and infiltration is 5,643,405 gpy.

The utility reported the total number of water gallons billed to all wastewater customers during the test year was 36,646,000 gallons (19,343,000 residential, 17,303,000 non-residential). Estimating the residential return at 80 percent and the non-residential return at 90 percent, the total estimated return to the EWD is 31,047,100 gallons. Thus, the estimated maximum amount of wastewater that the EWD should treat, the estimated return plus the allowable I&I, is 36,690,505 gpy. Any amount treated in excess of this amount is considered excessive I&I.

According to the utility's MFR Schedule F-2, the utility treated 49,632,000 gallons of wastewater (including flows to EWD) during the test year. This is greater than the estimated maximum amount allowable. Therefore, the excessive I&I is 12,941,495 gpy, or 35,456 gpd. Expressed as a percentage of wastewater treated, excessive I&I is 26.07 percent.

Thus, we find that a 26.07 percent adjustment to wastewater purchased power, chemical expenses, and purchased wastewater treatment shall be made for excessive I&I.

Purchased Wastewater Treatment Capacity

The treatment capacity from EWD was purchased in two increments in 2006 and 2007 on an annual average daily flow (AADF) basis for a total of 300,000 gpd. The amount of capacity purchased was based on the utility's then current demand, plus guaranteed revenue agreements for the Eagles Preserve Drive landowners, plus prepaid commitments from the developers noted in the case background. While not all of the growth materialized as expected, some of it did, and recently work has begun again on some of the previously planned developments. For that reason we find that the estimated flows for the unbuilt guaranteed revenue and prepaid customers shall be included in the U&U calculations because, having already been paid for the capacity, the utility is obligated to be capable of providing service to these customers on demand.

According to Rule 25-30.432, F.A.C., the U&U analysis of a utility's WWTP is based on customer demand compared with the permitted plant capacity, with customer demand measured on the same basis as permitted capacity. Based on these parameters, we find that the purchased wastewater treatment capacity is 91.4 percent U&U.

Interconnection Force Main

As alluded to earlier, the physical properties of the interconnection force main necessitates sizing it for expected peak flow rather than for an average flow. This is because the pipe size limits the maximum flow. If demand exceeds this limit, it could cause line rupture, pump failure, equipment damage, and/or loss of service. The only peak flow data available for the test year was for the WWTP, as contained in the Discharge Monitoring Reports submitted to DEP. For the test year, the peak flow treated at the WWTP was 147,000 gpd, or 2.03 times the AADF. It is appropriate for this factor to be used in estimating test year peak flows for EWD, guaranteed revenue and prepaid commitments. These same values are appropriately used for the primary master lift station calculation below.

The U&U calculations for the interconnection force main and primary master lift station are as follows. Excessive I&I is not considered separately, being included in the peak flow data. Thus, based on test year peak WWTP flows of 147,000 gpd, EWD peak flows of 129,000, peak guaranteed revenue flows of 26,228 gpd, peak prepaid commitment flows of 309,717 and the interconnection force main capacity of 1,000,000 gpd, we find that the interconnection force main is 61.2 percent U&U. The U&U adjustment of 61.2 percent for the force main shall be applied to NARUC Account Nos. 355.2, Power Generation Equipment, and 360.2, Collection Sewers – Force.

Primary Master Lift Station

The U&U calculation for the primary master lift station is similar to the interconnection force main, with one difference. While the interconnection force main must deliver all flows from the Sandalhaven wastewater service territory to EWD, the primary master lift station will process all flows except that from the area previously only capable of being served by the WWTP. The flows from this area will be delivered directly to the interconnection force main by the secondary master lift station that is part of the diversion project that is among the pro forma items in the instant docket. Thus, the WWTP flows have been omitted from this calculation.

Based on test year peak EWD peak flows of 129,000, peak guaranteed revenue flows of 26,228 gpd, peak prepaid commitment flows of 309,717, and the primary master lift station capacity of 500,000 gpd, we find that the interconnection force main is 93.0 percent U&U.

Collection System

In the utility's last rate case we found the wastewater collection system to be 100% U&U because virtually all of the wastewater mains and lift stations were contributed by the developers. Since that time there have been no changes to the collection system; therefore, we find that the wastewater collection system is 100% U&U.

Land

As indicated in the utility's MFRs, a U&U adjustment of 46.54 percent was applied to the Land balance of $157,062 to reflect the portion of land not used to provide service to customers. It is appropriate to apply this same adjustment to the agreed upon audit adjustment to increase land by $10,000. Accordingly, we find that the Land balance shall be decreased by $4,662 to reflect the appropriate used and useful amount.

Based on the analysis above, we find that Sandalhaven's wastewater collection system is 100 percent U&U, its purchased wastewater treatment capacity is 91.4 percent U&U; its primary master lift station is 93.0 percent U&U, and its interconnection force main is 61.2 percent U&U. To reflect the appropriate U&U percentages, plant shall be decreased by $1,361,389, accumulated depreciation shall be decreased by $451,514, CIAC shall be decreased by $159,541, and accumulated amortization of CIAC shall be decreased by $45,270. In addition, Land shall be decreased by $4,662. Corresponding adjustments shall be made to decrease depreciation expense and amortization expense by $48,357 and $4,962, respectively. As such, rate base shall be decreased by $795,603 and net depreciation expense shall be decreased by $43,395. Finally,

we find that wastewater purchased power, chemical expenses, and purchased wastewater treatment shall be reduced by 26.07 percent for I&I.

E. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M Expense, to calculate the working capital allowance. The utility properly filed its allowance for working capital using the one-eighth of O&M expense method and reflected a working capital allowance of $87,257 in its MFRs. We have approved adjustments to Sandalhaven's O&M expenses, which are reflected on Schedule No. 3A. As a result, we find that the appropriate working capital allowance is $70,647, which reflects a decrease of $16,610 to the utilities' requested working capital allowance.

F. Rate Base for 2014 Test Year

In its Revised MFRs, the utility requested a rate base of $4,721,216. Based on our adjustments, the appropriate rate base is $3,256,002. Our adjustments in the preceding issues result in a decrease of $1,465,215. The schedule for rate base is attached as Schedule No. 1, and the adjustments are shown on Schedule No. 1-A.

III. Cost of Capital

A. Return on Equity (ROE)

The ROE included in the utility's Revised MFRs is 10.37 percent. Based the current leverage formula in effect and an equity ratio of 49.78 percent, we find that the appropriate allowed ROE is 10.36 percent. We further find that a range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

B. Accumulated Deferred Income Taxes (ADIT)

In its MFRs, the utility included a debit ADIT balance of $540,000 in its rate base. Two adjustments to the utility's ADITs are necessary. The adjustments involve the appropriate ratemaking treatment of the utility's ADITs for taxes paid on plant capacity charges and whether the debit ADITs for a net operating loss (NOL) should be disallowed.

Sandalhaven included a debit ADIT amount of $618,138 associated with income taxes the utility paid on plant capacity fees received from property developers. Sandalhaven believes that IRS Treasury Regulation 1.118-2 requires the utility to treat plant capacity charges as taxable income. Our staff is of the opinion that IRS Treasury Regulation 1.118-2 clearly demonstrates that, in this case, Sandalhaven's plant capacity charges are non-taxable CIAC. In support of its position, the utility provided tax return documents showing it paid income taxes on the plant capacity fees of $895,000 in 2006. Specifically, the document included an entry for other income of $895,000 from service line and meter fees.

In addition, the utility provided a memorandum from PricewaterhouseCoopers dated December 22, 2004. The memorandum indicated that PricewaterhouseCoopers reviewed and

signed the U.S. Corporation Income Tax returns for tax years 2001, 2002, and 2003, filed by Sandalhaven's parent company, Utilities, Inc. The PricewaterhouseCoopers memorandum states:

> For the above mentioned income tax returns, plant modification fees and tap/connection fees were properly included in taxable income on each tax return under the provisions of the Internal Revenue Code Section 118 and the Income Tax regulations thereunder.

Paragraph (b)(3) of IRS Treasury Regulation 1.118-2 states that a customer connection fee is not a contribution in aid of construction under paragraph (b) and generally is included in taxable income. The utility classified the CIAC received from developers as tap fees, or service line or meter fees. Based on the utility's classification, it is understandable that a reasonable person could conclude that the CIAC is taxable under the utility's interpretation of IRS Treasury Regulation 1.118-2.

However, we find that the CIAC collected from the developers does not meet the definition of a customer connection fee as defined by Paragraph (b)(3)(i) of IRS Treasury Regulation 1.118-2, which states:

> The term *customer connection fee* includes any amount of money or other property transferred to the utility representing the cost of installing a connection or service line (including the cost of meters and piping) from the utility's main water or sewer lines to the line owned by the customer or potential customer.

The CIAC in question consists mostly of payments from multiple developers from 1995 through 2006 to the utility to reserve capacity from the utility to serve potential residents in the planned developments. The amount of the plant capacity fee collected from the developers was based upon the Commission-approved plant capacity fee of $1,250 per ERC listed in Sandalhaven's tariff. The amount of CIAC received was $1,573,581 which resulted in deferred taxes of approximately $592,138.

IRS Treasury Regulation 1.118-2 clearly demonstrates that Sandalhaven's plant capacity charges are non-taxable CIAC. The characteristics to meet the definition of non-taxable CIAC are: (1) the money must be contributed to a regulated public utility that provides either water or sewer disposal services; (2) the contribution must provide for the expansion, improvement, or replacement of the utility's facilities; and (3) the contribution cannot be included in the utility's rate base for rate-making purposes. The CIAC collected by the utility meets all of these characteristics.

Further, if the CIAC received from the developers is considered a customer connection fee, paragraph (b)(4)(i) of IRS Treasury Regulation 1.118-2 clearly demonstrates that Sandalhaven's plant capacity charges meet the exception whereby the CIAC is non-taxable if the charges were approved within 8½ months from the in-service date of the wastewater treatment plant. Paragraph (b)(4)(ii) of IRS Treasury Regulation 1.118-2, states:

> (ii) Example. The application of paragraph (b) (4) (i) of this section is illustrated by the following example:

> Example. M, a calendar year regulated public utility that provides water services, spent $1,000,000 for the construction of a water facility that can serve 200 customers. M placed the facility in service in 2000. In June 2001, the public utility commission that regulates M approves a tariff requiring new customers to reimburse M for the cost of constructing the facility by paying a service availability charge of $5,000 per lot. Pursuant to the tariff, M expects to receive reimbursements for the cost of the facility of $100,000 per year for the years 2001 through 2010. The reimbursements are contributions in aid of construction under paragraph (b) of this section because no later than 8½ months after the close of the taxable year in which the facility was placed in service there was a tariff, binding under local law, approved by the public utility commission requiring new customers to reimburse the utility for the cost of constructing the facility. The basis of the $1,000,000 facility is zero because the expected contributions equal the cost of the facility.

Pursuant to Section 367.171, F.S., on September 27, 1994, the Board of County Commissioners of Charlotte County adopted a resolution giving us jurisdiction over privately owned water and wastewater utilities in Charlotte County. By Order No. PSC-94-1451-FOF-WS, issued November 28, 1994, we acknowledged the County's resolution. By Order No. PSC-95-0478-FOF-SU, we approved a grandfather certificate for the utility and approved the $1,250 plant capacity charge that Charlotte County had initially set. By Order No. PSC-99-2114-PAA-SU, we approved the transfer from Sandalhaven Utility, Inc. to Utilities, Inc. of Sandalhaven and approved the adoption of the same $1,250 plant capacity charge.

Additionally, the amount of ADITs associated with the tax years 2001, 2002, and 2003, addressed by the PricewaterhouseCoopers memorandum discussed above, have been retired in conjunction with the retirement of the WWTP and should be removed from the ADIT balance in any case. Further, in its response to Commission staff's fifth data request number 12, Sandalhaven stated that the plant capacity fees that comprise the CIAC in question were misclassified as tap fees and are capacity charges.

In light of the above, we find that the debit ADITs from taxes paid on plant capacity charges shall be disallowed for ratemaking purposes. This same issue was addressed in the utility's last case before us in Docket No. 060285-WS, and in that case, we also disallowed the inclusion of the debit ADITs.[8]

Sandalhaven also included a debit ADIT amount of $137,165 associated with a net operating loss (NOL) incurred in prior years. For the purpose of setting rates, the debit amount associated with the NOL should not be included in the ADIT balance unless the NOL is included in the calculation of the per book income tax expense. Including the debit ADIT for a NOL in years outside of the test year would allow the utility to recover prior year losses in current rates. Because the utility did not include the NOL in its income tax expense for the test year, we find

[8] Order No. PSC-07-0865-PAA-WS, issued October 29, 2007, in Docket No. 060285-WS, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven, p. 23-26.

that the debit amount of $137,165 be removed from the utility's ADIT balance. This treatment is consistent with our decision in the Labrador rate case in Docket No. 140135-WS.[9]

Based on the analysis above, the debit ADIT balance of $618,138 associated with plant capacity fees and the debit ADIT balance of $137,165 associated with the NOL shall be disallowed. The resulting adjustment is an increase of $755,303 to the credit balance. Additionally, a credit of $371 shall be added to the ADIT balance to reflect the appropriate amount associated with the utility's requested pro forma plant additions. Accordingly, we find that the appropriate 2014 average net used and useful credit ADITs balance to include in the capital structure is $214,874. This represents an increase of $755,674 to the credit balance, because the utility reflected a net debit balance in rate base of $540,800 in its revised MFRs.

C. Weighted average cost of capital

In its filing, the utility requested an overall cost of capital of 8.50 percent. In addition to the adjustments discussed above, we find that the cost rate for short-term debt should also be adjusted.

Sandalhaven properly used the simple average method as required by Rule 25-30.433(4), F.A.C., to calculate a short-term interest rate of 7.77 percent. Using the simple average method, Sandalhaven calculated its average short-term debt balance to be $4,000,000. The utility's annual interest expense was $310,713. Dividing the annual interest expense by the simple average balance yields a short-term debt cost rate of 7.77 percent. The 13-month average short-term debt balance for the test year ended December 31, 2014, was $13,923,077. Using the 13-month balance instead of the simple average balance results in a short-term debt cost rate of 2.23 percent.

However, using the simple average method yields an interest rate that is not reflective of the utility's actual cost of short-term debt. The short-term debt for Sandalhaven is allocated from its parent company, Utilities, Inc. The outstanding balance of short-term debt as of December 31, 2013, was $5,700,000 and the outstanding balance as of December 31, 2014, was $2,300,000. The simple average is $4,000,000. The average outstanding balance for the eleven months January 2014 through November 2014 was $15,727,273. Utilities, Inc. paid interest expense based on the larger outstanding balance, not the simple average balance of $4,000,000. Using the interest expense for a larger outstanding balance yields a cost rate that is artificially inflated for rate-making purposes and is unreasonable.

In its response to Commission staff's fifth data request, number 14, the utility explained short-term debt increased throughout 2014 to temporarily cover long-term debt interest obligations and was reduced at year end through an infusion of equity by Sandalhaven's parent company, Utilities, Inc. While Utilities, Inc.'s short-term debt financial policies are fiscally prudent, Sandalhaven's customers should not pay a short-term debt cost rate that is not reflective of the actual cost of short-term debt incurred.

[9] Order No. PSC-15-0208-PAA-WS, issued May 26, 2015, in Docket No. 140135-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., p. 14-15.

Labrador Utilities, Inc. (Labrador) used a simple average method to calculate the short-term debt cost rate.[10] In that docket, we reduced the short-term debt cost rate to match that of Sanlando Utilities Corp. (Sanlando). Sanlando used a 13-month average method to calculate a short-term debt cost rate of 2.82 percent. In the Labrador docket, we reasoned that given that both utilities (Labrador and Sanlando) had the same amount of interest expense, the simple average method skews the calculation of the cost rate. We found that because the short-term debt for both utilities was allocated from their parent company, Utilities Inc., it was appropriate for the short-term debt cost rate to be the same and reduced Labrador's short-term debt cost rate to be the same as the rate for Sanlando.[11]

Consistent with our decision in the Labrador docket, we find that the cost rate for short-term debt shall be calculated using a 13-month average method instead of a simple average method. Accordingly, the appropriate cost rate for short-term debt is 2.23 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure, we find that the weighted average cost of capital for the test year ended December 31, 2014, is 7.88 percent.

IV. Test Year Revenues

The utility agreed to Audit Finding No. 6, which reflected a decrease in test year revenues of $17,939. However, after further analysis, we discovered that additional billing determinants should be added to reflect the appropriate number of customers who paid guaranteed revenues. As a result, test year revenues shall be increased by $2,285. Based on the above, the appropriate test year revenues for Sandalhaven's wastewater system, including miscellaneous revenues, are $666,122.

V. Operating and Maintenance (O&M) Expenses

A. Salaries and wages

In its MFR, the utility recorded a Salaries & Wages expense of $149,373 and Employees Pensions and Benefits expense of $22,907. In the Affiliate Audit for UI, Commission auditors examined O&M expense allocations for Sandalhaven. In Audit Finding Number 3, Commission audit staff reduced the salaries of officers and employees by $10,131, payroll taxes by $10 and benefits by $379. Included in the salary expense were five wastewater plant operators that equated to 2.275 full time equivalents (FTEs). We agree with the audit findings, however, further adjustments are necessary.

The audit findings suggest that 1.2 FTEs for wastewater plant operators are necessary to continue operations on the wastewater system after the decommissioning of the WWTP. Further, the utility has agreed that 1.2 FTEs should be sufficient on a going forward basis. The analysis conducted in this docket reviewed this expense in light of current duties and responsibilities as well as the utility's change in operations due to the decommissioning of the WWTP. Based on this review, a decrease in operators' salaries and benefits of $45,778 and

[10] Id.
[11] Id

$13,284, respectively, shall be made to reflect the reduction in operator FTEs. An additional adjustment to decrease payroll taxes by $3,947 shall also be made.

Our audit staff requested that the utility provide support for each employee, their most current annualized salary and the allocated salary, benefits, and taxes using the ERC allocation factor based on the employee's duties. The utility provided schedules using the salaries as of the end of April 2015 with the overtime earned in 2014, and the ERC factors at the end of April 2015. Some employees' aggregate salary was then increased by an average of 3 percent in preparation for the 2016 expenses. Consistent with our prior practice, we find that the 3 percent increase for 2016 non-operators' salaries, benefits and payroll taxes represents a pro forma expense that is outside of the test year and is, therefore, disallowed.

In its MFRs the utility inadvertently made an adjustment to increase Salaries and Wages – Officers by $12,961. The adjusted amounts requested in the utility's MFRs are $22,907 for Pensions and Benefits, and $17,681 for Salaries and Wages – Officers. Our staff audit findings reflected a balance of $35,489 for Pensions and Benefits and a balance of $13,948 for Salaries and Wages – Officers. Based on these audit findings, we find that the utility's adjustment should have been made to Employees Pensions and Benefits expense and hereby approve them.

Based on the audit findings and analysis above, we find that the appropriate amount of Salaries and Wages – Employees, Salaries and Wages – Officers, and Employee Pensions and Benefits is $68,481, $13,530, and $22,010, respectively. The appropriate amount for payroll taxes is $7,332. Our adjustments are summarized in Table 7 below.

Table 7
Summary of Adjustments

Expense	**MFR Amount**	**Adjustment**	**Final Amount**
Employees	$131,692	($63,211)	$68,481
Officers	$17,681	($4,151)	$13,530
Total Salary	$149,373	($67,362)	$82,011
Benefits	$22,907	($897)	$22,010
Payroll Taxes	$11,359	($4,027)	$7,332

Source: MFRs and audit work papers

In conclusion, we find that salaries and wages expense shall be decreased by $67,362, Employee Pensions and Benefit expense shall be decreased by $897, and payroll tax expense shall be decreased by $4,027.

B. Purchased Sewage Treatment

In its MFRs, Sandalhaven reflected an expense of $338,874 for purchased sewage treatment. In response to a Commission staff data request, the utility indicated that the pro forma adjustment of $166,911 to increase the expense was calculated in error and the increase should

be $208,262, or an additional increase of $38,664. The increase is based on the number of gallons that will be treated by EWD due to the diversion of wastewater from the decommissioned WWTP to EWD, plus a growth allowance.

We disagree with the utility's recalculated pro forma amount and find that an additional pro forma increase of $22,447 shall be made. We do not find it appropriate for the utility to include an allowance for growth in its calculation since O&M expenses should be based on costs incurred during the test year. The appropriate amount of purchased sewage treatment is $361,321. This estimate is based on the total number of gallons treated for the test year as reflected in MFR Schedule F-2 which state that Sandalhaven reported total flows for the WWTP and wastewater treated by EWD to be 49.632 million gallons. The cost of treatment is $7.28 per 1,000 gallons. Multiplying the number of gallons treated by the cost yields an expense of $361,321 (49,632 x $7.28).

C. Excessive I&I Adjustment

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, we shall consider 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. Commission engineering staff calculated, and we have approved, an excessive I&I of 26.07 percent. Accordingly, we find that adjustments shall be made to reduce the expense for chemicals, purchased power, and purchased sewage treatment. Chemicals shall be decreased by $87, purchased power shall be decreased by $3,866, and purchased sewage treatment shall be decreased by $94,196. The total O&M adjustment for excessive I&I is a decrease of $98,149.

D. Sludge Hauling

In its filing, Sandalhaven included a test year expense of $14,490 for sludge hauling and reflected a pro forma adjustment to remove $12,000 related to the decommissioning of the WWTP. A balance of $2,490 was reflected as the test year adjusted balance. However, in its letter dated October 26, 2015, the Office of Public Counsel indicated it believes that the remaining balance of $2,490 should be removed. We agree, and the remaining balance shall be removed because the utility did not support the remaining cost for sludge hauling expense related to the WWTP.

E. Bad Debt Expense

In its MFRs the utility included bad debt expense of $5,700. In the three previous annual reports for 2012, 2013, and 2014, Sandalhaven reported bad debt expense of $8,412, ($8,418), and $5,701, respectively. Based on a 3-year average, we find that $1,898 is the appropriate amount of bad debt expense to include in the test year ended December 31, 2014. This treatment is consistent with our decision in the Labrador rate case in Docket No. 140239-WS.[12] Accordingly, the bad debt expense shall be decreased by $3,802.

[12] Order No. PSC-15-0208-PAA-WS, issued May 26, 2015, in Docket No. 140135-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

F. Regulatory Commission Expense – Other

In its filing, Sandalhaven included $2,013 for regulatory expense other than rate case expense. Commission staffs audit work papers showed that part of the utility's allocated expenses included an expense of $70,669 from Deloitte Consulting LLP for services rendered from February 2, 2014, through May 5, 2014, for Utilities, Inc. expert witnesses. The allocated amount included in the test year expense is $1,293. This expense was part of the rate case expense in Docket No. 120161-WS. In that case, we found, "that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiary's ERCs to UI's total Florida ERCs as of December 31, 2013."[13] We also specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, wherein the rate case expense was allocated to Utilities, Inc. sister companies. Sandalhaven's portion of that rate case expense was determined to be $2,484 and is included in the amortization of rate case expense in this case. Accordingly, we find that regulatory commission expense – other shall be decreased by $1,293.

Based on staff's analysis above, we find that O&M expense shall be decreased by $83,287.

VI. Rate Case Expense

In its MFRs, Sandalhaven requested $131,850 for current rate case expense. On October 15, 2015, the utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled $133,057. A breakdown of the utility's requested rate case expense is as follows:

Table 8
Initial and Revised Rate Case Expense

	MFR B-10 Estimated	**Actual**	**Additional Estimated**	**Revised Total**
Legal Fees	$57,000	$30,144	$10,060	$40,204
Accounting Consultant Fees	57,750	72,664	4,500	77,163
Engineering Consultant Fees	7,000	3,608	1,983	5,590
Filing Fee	4,000	0	4,000	4,000
WSC Travel	1,000	0	1,000	1,000
WSC FedEx/Misc.	100	0	100	100
Cust. Notices and Postage	5,000	0	5,000	5,000
Total	$131,850	$106,416	$26,643	$133,057

Source: MFR Schedule B-10, Responses to Commission staff data request

[13] Order No. PSC-14-0521-FOF-WS, issued Sept. 30, 2014, in Docket 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system, p. 19.

Pursuant to Section 367.081(7), F.S., we are required to determine the reasonableness of rate case expense and to disallow all rate case expense determined to be unreasonable. 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 that the following adjustments to Sandalhaven's rate case expense estimate are appropriate.

Legal Fees – Friedman & Friedman, P.A. (F&F)

The first adjustment to rate case expense relates to Sandalhaven's legal fees. In its MFRs, the utility included $57,000 in legal fees to complete the rate case. The utility provided supporting documentation detailing this expense through October 6, 2015. The actual fees and costs totaled $30,144 with an estimated $10,060 to complete the rate case, totaling $40,204.

F&F's actual expenses included the $2,000 filing fee. However, the utility also included $4,000 in its MFR Schedule B-10, under "Public Service Commission – Filing Fee." We have left the filing fee as part of the legal fees and will remove the entry elsewhere to avoid double recovery of this fee.

According to invoices, the law firm of F&F identified and billed the utility $360 related to the correction of MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[14] Consequently, we will make an adjustment to reduce F&F's actual legal fees by $360.

F&F's estimate to complete the rate case includes fees for 26.5 hours at $360/hr.[15] and additional costs totaling $520. We find the full amount of the estimate to complete the case, $10,060, is reasonable. Accordingly, we find that no adjustment to this amount is necessary.

Accounting Consultant Fees – Milian, Swain & Associates (MS&A)

The second adjustment relates to MS&A's actual and estimated fees of $77,163, which was comprised of $72,664 in actual costs and $4,500 in estimated fees to complete the rate case as of September 29, 2015. In regard to MS&A's actual expenses, approximately 460.5 hours were related to MFR preparation.

In regard to MS&A's actual expenses, 4.25 hours were related to correcting deficiencies. As stated previously, we have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. As such, $563 (3.75 hrs. x $150/hr.) shall be removed for C. Yapp and $100 (0.5 hr. x $200/hr.) shall be removed for D. Swain. Accordingly, MS&A's actual accounting consultant fees shall be reduced by $663 ($563 + $100).

[14] 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.

[15] Beginning January 1, 2015, the hourly rate increased based upon the application of the Price Index since hourly rates were last adjusted. This results in a new hourly rate of $360.

In addition to the deficiency adjustments, approximately 16.5 hours for "MFRs – schedules, review, etc.," dated June 5, 2015, shall be removed. According to documentation provided by MS&A, D. Swain performed a similar review exactly one week prior. Moreover, the utility's MFRs were officially submitted two days prior, on June 3. We are persuaded that the review that took place on June 5 is duplicative and 16.5 hours for D. Swain shall be removed. As such, we find that $3,300 (16.5 hr. x $200/hr.) shall be disallowed for D. Swain. Accordingly, we find that MS&A's actual accounting consultant fees shall be reduced by $3,963 ($663 + $3,300).

MS&A estimates that a total of 28.75 hours are needed to complete the case. According to MS&A's summary, the consultant estimated the following:

Table 9
MS&A's Estimated Hours to Complete Case

Est. Hours	**Activity**
5.75	Provide support to client – Responses to Staff's Data Requests, including updates to Rate Case Expense.
2.5	Review Interim Order, test interim rates and consult with client.
11	Review audit, discuss issues with client
4.75	Review Staff recommendations, testing recommended revenue requirements and resulting rates, including suppression calculations, and discuss with client.
4.75	Review PAA Order, testing final approved revenue requirements and resulting final rates, including suppression calculations, and discuss with client.
28.75	**Total**

Source: Responses to Commission staff data request.

As represented above, we find that the estimated hours to complete the case should be sufficient to address any remaining tasks. They do not appear to be excessive or unreasonable and appear to follow closely with the hours approved for MS&A in several recent sister utility rate cases.[16] As such, no adjustment is necessary.

Engineering Consultant Fees – M&R Consultants

The utility included $7,000 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to Commission staff's data requests. The utility provided support documentation detailing the actual expense through October 8, 2015. The actual fees and costs totaled $3,608 with an additional $1,983 estimated to complete

[16] Order No. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Company; and PSC-15-0208-PAA-WS, issued May 26, 2015, in Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

the rate case. We find that $5,590 ($3,608+$1,983) for engineering consultant fees is reasonable and justified. Accordingly, no adjustment is necessary.

Filing Fee

The utility included $4,000 in its MFR Schedule B-10 for the filing fee. According to documentation provided by F&F, the actual filing fee of $2,000 was paid as part of the legal fees. Since the amount is already included in F&F's legal fees, we have removed $4,000 to avoid double recovery of this fee.

WSC Travel Expense

In its MFRs, Sandalhaven estimated $1,000 for travel expenses. The utility provided neither support documentation for this expense, nor a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, we find that $1,000 of rate case expense associated with WSC Travel Expense be should be removed.

WSC FedEx Expense

The next adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The utility estimated $100 of FedEx and other miscellaneous costs in its initial filing. The utility did not provide support for any in-house FedEx expenses. Based on the lack of support documentation, we shall remove the FedEx rate case expense.

Customer Notices and Postage

In its revised rate case expense schedule, Sandalhaven reflected estimated costs of $5,000 for customer noticing and postage. The utility is responsible for sending out four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase.

We have historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.[17] The estimated cost of postage for the combined interim and initial notice, customer notice, and the final notice is approximately $854 (835 customers x $0.341 pre-sorted rate x 3 notices), the cost of copies is approximately $919 (835 customers x $0.10 per copy x 11 total pages), and the cost of envelopes is approximately $125 (835 customers x $0.05 x 3 notices). Based on these components, the total cost for these notices and postage is $1,898 ($854.21 + $918.50 + 125.25).

[17] Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

As such, we find that rate case expense should be decreased by $3,102 ($1,898 - $5,000) to allow for adequate expenses related to mailing notices in accordance with Rule 25-22.0407, F.A.C.

Additional Rate Case Expense

In addition to the rate case expense provided by the utility, we found in the Utilities, Inc., generic docket "that rate case expense associated with Docket No. 120161-WS shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiary's ERCs to UI's total Florida ERCs as of December 31, 2013."[18] We further specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. We further found that recovery of this expense shall be included as a separate line item within rate case expense as part of each subsidiaries' next file and suspend rate case, limited proceeding, or staff-assisted rate case. Sandalhaven's portion of rate case expense from that docket is $2,484, or $621 on an annual basis.[19]

Based upon the adjustments discussed above, we find that Sandalhaven's revised rate case expense of $133,057 shall be decreased by $10,042, to reflect our adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of $123,015. A breakdown of the approved rate case expense is as follows:

Table 10
Rate Case Expense

Description	**MFR Estimated**	**Utility Revised Act.& Est.**	**Commission Adjustment**	**Approved. Total**
Legal Fees	$57,000	$40,204	(360)	39,844
Accounting Consultant Fees	57,750	77,163	(3,963)	73,200
Engineering Consultant Fees	7,000	5,590	0	5,590
Filing Fee	4,000	4,000	(4,000)	0
WSC Travel	1,000	1,000	(1,000)	0
WSC FedEx/Misc.	100	100	(100)	0
Cust. Notices and Postage	5,000	5,000	(3,102)	1,898
Total	$131,850	$133,057	($12,525)	$120,531
Add'l RCE – Generic Dkt.	$2,484			$2,484
Total w/Add'l RCE	$134,334			$123,015

Source: MFR Schedule B-10, Responses to Commission staff data requests.

In its MFRs, the utility requested total rate case expense of $134,334. When amortized over four years, this represents an annual expense of $33,584. The approved total rate case expense of $123,015 should be amortized over four years, pursuant to Section 367.081(6), F.S.

[18] Order No. PSC-14-0521-FOF-WS, issued Sept. 30, 2014, in Docket 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system, p. 19.
[19] Id.

This represents an annual expense of $30,754. Based on the above, we find that annual rate case expense shall be decreased by $2,830.

Taxes other than Income

Rule 25-30.433(5), F.A.C., states that property tax on non-used and useful plant shall not be allowed. We have increased the value of land by $10,000 pursuant to an audit adjustment. As indicated in the utility's MFRs, a used and useful adjustment of 46.54 percent was applied to the land balance of $157,000 to reflect the portion of land not used to provide service to customers. This same adjustment should be applied to the agreed upon audit adjustment to increase land by $10,000. We have approved a non-used and useful adjustment to reduce plant and land. Based on the used and useful adjustments previously discussed, property tax should be decreased by $15,955 to reflect the disallowed portion of plant. In its MFRs, the utility reflected an adjustment of $1,264 to decrease property taxes for the non-used and useful adjustment to land. Accordingly, staff recommends that property tax expense be decreased by $14,691.

VII. Revenue Requirement

In its filing, Sandalhaven requested revenue a requirement to generate annual revenue of $1,620,750. This requested revenue requirement represents a revenue increase of $939,514, or approximately 137.91 percent.

Consistent with our decisions concerning rate base, cost of capital, and operating income issues, we hereby approve rates designed to generate a revenue requirement of $1,229,183. Our approved revenue requirement of $1,229,183 is $563,061 greater than the adjusted test year revenue of $666,122 or an increase of 84.53 percent. This pre-repression revenue requirement will allow the utility the opportunity to recover its expenses and earn a 7.88 percent return on its investment in rate base.

VIII. Rates

A. Rate structure

Sandalhaven is located in Charlotte County and provides wastewater service only. Water service is supplied by Charlotte County. The utility serves 788 residential, four multi-residential, and 43 general service customers. The average water demand for the residential wastewater customers is 2,085 gallons. Currently, the utility's residential rate structure consists of a uniform base facility charge (BFC) for all meter sizes and a gallonage charge with an 8,000 gallon cap. General service and multi-residential customers are billed a BFC based on the water meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Commission staff performed an analysis of the utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential 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 a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, this Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. In this case we find that it is appropriate to allocate 50 percent to the BFC because the customer base is seasonal and the utility purchases wastewater treatment from EWD. Furthermore, it is our practice to set the wastewater cap at approximately 80 percent of residential wastewater gallons sold. Based on our review of the billing analysis, 86 percent of the gallons are captured at the 6,000 gallon consumption level. For this reason, we find that the gallonage cap for residential customers shall be reduced to 6,000 gallons. The wastewater gallonage cap recognizes that not all water is returned to the wastewater system. We also find that the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge, which is consistent with our past decisions. It should also be noted that because the average water demand (2,085) is very low and is provided by a different entity, any impact on water demand based on an increase in the wastewater rates of Sandalhaven would be de minimis. Therefore, we do not find that a repression adjustment is appropriate in this case.

In the utility's last rate case, we evaluated whether it was appropriate to bill multi-residential customers based the number of units for each complex. The utility indicated that there was a significant increase in the number of multi-residential customers projected to be served coupled with the fact that there was no way to verify the number of units that were going to be constructed. Therefore, we determined that it was appropriate for a multi-residential customer to be charged the same rate structure as the general service class. In this case, we have also evaluated whether it is appropriate to go behind the meter to assess the demand the multi-residential customers place on the system instead of relying on factored ERCs by meter size. However, many of the multi-residential customers have pools and irrigation systems which have water demand that may not return to the wastewater system. Therefore, we find that consistent with our previous order, the rate structure for multi-residential customers shall remain unchanged.

Based on the above, we find it appropriate to continue the BFC and uniform gallonage charge rate structure for all customers, a BFC allocation based on 50 percent of the wastewater revenue requirement, a residential gallonage cap of 6,000 gallons, and a gallonage charge for general service customers that is 1.2 times the residential gallonage charge.

Table 11
Wastewater Rate Structure and Rates

	RATES AT TIME OF FILING	COMMISSION APPROVED RATES (50% BFC)
Residential		
Base Facility Charge	$29.34	$43.60
Charge per 1,000 gallons		
8,000 gallon cap	$6.59	N/A
6,000 gallon cap	N/A	$16.41
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
2,000 Gallons	$42.52	$76.42
6,000 Gallons	$68.88	$142.06
8,000 Gallons	$82.06	$142.06

The approved rate structure and monthly wastewater rates are shown on Schedule No. 4. The utility 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 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 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.

IX. Miscellaneous issues

A. Interim rate refunds

By Order No. PSC-15-0320-FOF-WS, we authorized the collection of interim rates, and required the utility to hold $356,608 subject to refund pursuant to Section 367.082, F.S. 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, 2014. Sandalhaven's approved interim rates did not include any provision 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, we 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, we calculated an adjusted interim revenue requirement of $1,260,294 for wastewater. The adjusted wastewater interim revenue requirement of $1,260,294 is higher than the interim revenue requirement of $786,742 granted in the Interim Order. As a result, no refund is necessary. Based on the above, we shall release the corporate undertaking amount of $356,608.

B. Four year rate reduction

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 total reduction for the instant case is $32,203. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. Using Sandalhaven's approved revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

In Sandalhaven's 2012 rate case before the Board of County Commissioners of Charlotte County, the amortized rate case expense was determined to be $37,384.[20] The utility included this amount in its balance of unamortized rate case expense in the current docket. The total reduction for the Charlotte County case, grossed up for RAFs, is $39,146. The rates for Charlotte County rate case went into effect on December 21, 2012, and pursuant to Section 367.0816, F.S., the rates should be reduced on December 20, 2016. The four year rate reduction from the Charlotte County case are shown on Schedule No.4.

The wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and amortized over a four-year period effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Sandalhaven 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 respective rate reductions. 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. Customer deposits

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility and, ultimately, the general body of ratepayers. Historically, we have set

[20] Resolution 2012-209 before the Board of County Commissioners of Charlotte County, Florida, adopted November 13, 2012, In re: Application of Utilities, Inc. of Sandalhaven for in increase in wastewater rates and charges.

initial customer deposits equal to two times the average estimated bill.[21] Currently, the utility's existing initial deposit for residential and general service customers are two times the average estimated bills. Based on the approved wastewater rates, the appropriate initial customer deposit shall be $156 for all meter sizes to reflect an average residential customer bill for two months.

The appropriate initial customer deposit for the residential wastewater customers shall be $156 for all meter sizes. The initial customer deposits for all general service meter sizes shall be two times the average estimated bill for wastewater. The approved customer deposits shall be effective for services rendered or 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 charge the approved charges until authorized by this Commission to change them a subsequent proceeding.

D. Guaranteed revenue charge

During the test year, 68 lot owners in the Eagles Preserve subdivision paid a guaranteed revenue charge. The charge was collected prior to the utility's acquisition of the system in 1999, and has continued since that time. At the time of filing, the utility's guaranteed revenue charge was $28.42. In its MFRs, Sandalhaven requested a guaranteed revenue charge of $67.92. According to the utility, the proposed guaranteed revenue charge is an across the board increase to its current rate.

Rule 25-30.515(9), F.A.C., defines a guaranteed revenue charge as a charge designed to cover the utility's costs including, but not limited to the cost of operation, maintenance, depreciation, and any taxes, and to provide a reasonable return to the utility for facilities, a portion of which may not be used or useful to the utility or its existing customers. The charge is designed to help the utility recover a portion of its cost from the time capacity is reserved until a customer begins to pay monthly service rates.

In response to Commission staff's data request, the utility indicated the customers who pay guaranteed revenues did not prepay the service availability charges. We have found that guaranteed revenue charges lock in the amount of service availability charges notwithstanding a Commission approved change in service availability charges prior to the time of connection. Therefore, when those customers connect to the utility, the lot owners should pay the service availability charges that were in effect at the time capacity was reserved and guaranteed revenues began to be collected.[22] Those customers should not be required to pay the allowance for funds prudently invested charges (AFPI) because the guaranteed revenue charge has reimbursed the utility for the cost of operation, maintenance, depreciation, taxes, and return on investment for those customers share of the utility's facilities. Further, the guaranteed revenue charge is only applicable to the Eagles Preserve subdivision. Future customers requesting service will pay the utility's approved service availability and AFPI charges.

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[21]Order Nos. PSC-13-0611-PAA-WS, issued November 19, 2013, in Docket No. 130010-WS, In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC. and PSC-14-0016-TRF-WU, issued January 6, 2014, in Docket No. 130251-WU, In re: Application for approval of miscellaneous service charges in Pasco County, by Crestridge Utility Corporation.

[22] Order No. 16625, issued September 23, 1986, in Docket No. 861771-WS, In re: Petition of Edward Keohane for Declaratory Statement.

Based on the above, we find that Sandalhaven's guaranteed revenue charge shall be revised to $45.73, effective on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C.

E. Service availability

In Docket No. 060285-SU, this Commission approved a plant capacity charge of $2,628 per ERC and a main extension charge at actual cost. However, the tariff was inadvertently approved with the plant capacity charge described as a system capacity charge. As a result, subsequent to Charlotte County rescinding jurisdiction in 2007, the county approved the charge as a system capacity charge as well. In its rate case proceeding in 2012, Charlotte County did not revise the service availability charges that we had previously approved. When Charlotte County returned jurisdiction to this Commission in 2013, we approved the utility's existing rates and charges, including the $2,628 charge described as a system capacity charge.

A system capacity charge is a single service availability charge that includes the cost of both plant and lines. For a utility that receives donated lines from a developer, an individual customer connecting to those lines should only be responsible for a service availability charge that reflects plant costs. Therefore, separate charges are typically developed to reflect the customer's share of plant costs (plant capacity charges) and the cost of lines in lieu of donated lines (main extension charges).

Rule 25-30.580, F.A.C., establishes guidelines for designing service availability charges. Pursuant to the rule, the maximum amount of contributions-in-aid-of-construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection systems. The utility's current contribution level is approximately 30 percent.

F. Main Extension Charge

The utility's existing collection system, which was contributed by developers, is designed to serve the existing customers as well as the property for which service availability charges have been prepaid (2,175 ERCs). The utility's service territory includes some vacant property as well as an area with septic tanks; service to customers in those areas would require the installation of additional collection lines.

The utility's existing service availability policy requires customers to either install and donate collection lines to the utility or reimburse the utility if the utility constructs the main extension. In the event the utility oversizes the line to accommodate future customers, the utility absorbs the incremental cost of the additional capacity and collects a pro rata share of the cost from subsequent customers. If a developer installs an oversized line in anticipation of future customers, the developer would be entitled to a refundable advance agreement such that, as future customers connect to the oversized line, the developer is reimbursed for that customer's share of the cost of the line. Therefore, a customer would not both construct and donate a collection line and pay a main extension charge.

Based on the above, the main extension charge shall remain at actual cost. In addition, the utility's service availability policy shall continue to require donated lines as described above, consistent with the guidelines in Rule 25-30.580, F.A.C., which require that, at a minimum, the cost of the utility's lines shall be contributed.

G. Plant Capacity Charge

As previously discussed, all of Sandalhaven's wastewater flows are diverted through a force main interconnection with EWD. In addition, the utility has an agreement for purchased treatment capacity with the EWD. Therefore, the interconnection and purchased wastewater capacity from the EWD act as a surrogate wastewater treatment plant for Sandalhaven.

The cost of the force main included in rate base is $2,150,656 and it has capacity of 1,000,000 gpd. The utility paid $2,258,119 for the 300,000 gpd of purchased capacity from the EWD. In order to determine an appropriate plant capacity charge, Commission staff calculated the cost of the interconnection and the purchased capacity on a gpd basis. The force main cost per gpd is $7.53 ($2,150,656/1,000,000) and the purchased capacity cost per gpd is $2.15 ($2,258,119/300,000). The capacity of the force main is based on peak demand and the capacity purchased form EWD is based on average demand. Therefore, we have calculated a plant capacity charge that reflects the cost of the force main based on peak demand and the cost of the purchased capacity based on average demand. For this analysis, we used an average demand of 190 gpd. A plant capacity charge of $3,270 per ERC (ERC equals 190 gpd) is appropriate in this case.

Based on the above, the utility's existing main extension policy shall remain in effect and a plant capacity charge of $3,270 per ERC is approved. The approved service availability charges shall be effective for connections made on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C.

H. Allowance for funds prudently invested (AFPI)

An AFPI charge is a mechanism designed to allow a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the customers that will be served by that plant. The charge is calculated based on the costs associated with the non-used and useful plant. This one-time charge is assessed based on the date the future customer pays the utility's approved service availability charges and connects to the utility.

The utility's existing AFPI charges, which were established by Charlotte County when the utility was under its jurisdiction, are based on purchased wastewater capacity from the EWD, interconnection costs of the force main, and the primary master lift station. The utility did not propose a change in its AFPI charges. Since we have approved U&U percentages for purchased wastewater capacity, the primary master lift station, and the force main of 91.4 percent, 93 percent and 61.2 percent, respectively, it is appropriate to revise the utility's AFPI charges to reflect these changes.

The test year used in this case for establishing the amount of non-used and useful plant is the year ended December 31, 2014. Pursuant to Rule 25-30.434(4), F.A.C., the beginning date for accruing the AFPI charge shall agree with the month following the end of the test year that was used to establish the amount of non-used and useful plant. Therefore, the beginning date for the AFPI accrual in this case is January 1, 2015. Furthermore, in accordance with Rule 25-30.434(4), F.A.C., no charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charges. Typically, an AFPI charge is calculated for a five-year period.

Based on the non-used and useful portion of the force main and the associated ERCs, the wastewater AFPI charges are contained in Tables 12, 13 and 14 below.

Table 12
Allowance for Funds Prudently Invested – Purchased Wastewater Capacity
Calculation of Carry Costs Per ERC Per Month

	2015	2016	2017	2018	2019
January	7.98	104.14	204.94	310.72	421.89
February	15.96	112.51	213.72	319.95	431.60
March	23.94	120.87	222.49	329.17	441.30
April	31.93	129.24	231.27	338.39	451.01
May	39.91	137.60	240.05	347.62	460.71
June	47.89	145.97	248.83	356.84	470.41
July	55.87	154.33	257.61	366.07	480.12
August	63.85	162.70	266.39	375.29	489.82
September	71.83	171.06	275.16	384.52	499.53
October	79.81	179.43	283.94	393.74	509.23
November	87.79	187.79	292.72	402.97	518.93
December	95.78	196.16	301.50	412.19	528.64

136 ERCs remaining as of December 2014

Table 13
Allowance for Funds Prudently Invested – Primary Master Lift Station
Calculation of Carry Costs Per ERC Per Month

	2015	2016	2017	2018	2019
January	4.56	59.55	117.68	179.17	244.32
February	9.12	64.37	122.77	184.57	250.04
March	13.68	69.19	127.87	189.97	255.77
April	18.24	74.01	132.97	195.38	261.50
May	22.81	78.83	138.07	200.78	267.23
June	27.37	83.65	143.17	206.18	272.95
July	31.93	88.47	148.27	211.58	278.68
August	36.49	93.29	153.37	216.98	284.41
September	41.05	98.11	158.47	222.38	290.14
October	45.61	102.94	163.57	227.79	295.86
November	50.17	107.76	168.67	233.19	301.59
December	54.73	112.58	173.77	238.59	307.32

185 ERCs remaining as of December 2014

Table 14
Allowance for Funds Prudently Invested – Force Main
Calculation of Carry Costs Per ERC Per Month

	2015	2016	2017	2018	2019
January	6.17	80.54	159.23	242.62	331.04
February	12.33	87.06	166.15	249.95	338.82
March	18.50	93.59	173.06	257.28	346.60
April	24.67	100.11	179.98	264.61	354.39
May	30.84	106.64	186.89	271.94	362.17
June	37.00	113.16	193.80	279.27	369.95
July	43.17	119.69	200.72	286.60	377.73
August	49.34	126.22	207.63	293.94	385.51
September	55.51	132.74	214.55	301.27	393.29
October	61.67	139.27	221.46	308.60	401.08
November	67.84	145.79	228.37	315.93	408.86
December	74.01	152.32	235.29	323.26	416.64

2,042 ERCs remaining as of December 2014

Based on the above, Sandalhaven's existing AFPI charges shall be revised. The beginning date of the new AFPI charges shall be January 1, 2015. After December 31, 2020, the utility shall be allowed to collect the constant charge until future ERCs of 136 for the purchased wastewater capacity, 185 for the primary master lift station, and 2,042 for the force main have been added, at which time the charge shall be discontinued. The charge shall be collected from future connections based upon the time of the initial connection. The revised tariff sheets shall

be approved upon Commission staff's verification that the tariffs are consistent with our decision. Pursuant to Rule 25-30.475, F.A.C., the approved AFPI charges shall be effective for connections made on or after the stamped approval date of the tariff.

I. Proof of Adjustments

To ensure that the utility adjusts its books in accordance with our decision, Sandalhaven shall notify this Commission in writing 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased wastewater rates of Utilities, Inc. of Sandalhaven 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 scheduled and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Utilities, Inc. of Sandalhaven 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 Utilities, Inc. of Sandalhaven shall file revised wastewater tariff sheets and a proposed customer notice to reflect the rates approved herein. These rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets. It is further

ORDERED that the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by its customers. It is further

ORDERED that the utility shall provide proof of the date notice was given to its customers within 10 days of the date of the notice. It is further

ORDERED that, pursuant to Section 367.0816, F.S., the wastewater rates shall be reduced to remove rate case expense, grossed-up for regulatory assessment fees and amortized over a four-year period effective immediately following the expiration of the four year rate case expense recovery period. It is further

ORDERED that Utilities, Inc. of Sandalhaven 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 reductions. If this utility files the 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. It is further

ORDERED that the utility shall be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission-approved adjustments. 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, if no person whose substantial interests are affected files a protest by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto, with the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within 21 days of the issuance of the Order, in the form provided by Rule 28-106.201, Florida Administrative Code. It is further

ORDERED that the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 6th day of January, 2016.

Carlotta S Stauffer

CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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.

SBr

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 action, with the exception of the four year rate reduction and proof of adjustments, 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, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 27, 2016. 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.

Schedule No. 1

Utilities, Inc. of Sandalhaven
Schedule of Wastewater Rate Base
Test Year Ended 12/31/14

Docket No. 150102-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year
1	Plant in Service	$8,571,371	($181,463)	$8,389,908	($210,419)	$8,179,489
2	Land and Land Rights	157,487	209	157,696	10,000	167,696
3	Non-used and Useful Components	0	(73,089)	(73,089)	(800,265)	(873,354)
4	Accumulated Depreciation	(3,712,738)	773,864	(2,938,874)	332,017	(2,606,857)
5	CIAC	(3,276,640)	1,310,499	(1,966,141)	(258,674)	(2,224,815)
6	Amortization of CIAC	1,595,021	(1,071,361)	523,660	19,536	543,196
7	Construction Work in Progress	134,200	(134,200)	0	0	0
8	Working Capital Allowance	0	87,257	87,257	(16,610)	70,647
9	Debit ADITs	0	540,800	540,800	(540,800)	0
10	**Rate Base**	$3,468,701	$1,252,516	$4,721,217	($1,465,215)	$3,256,002

	Utilities, Inc. of Sandalhaven **Adjustments to Rate Base** **Test Year Ended 12/31/14**	**Schedule No. 1-A** **Docket No. 150102-SU**
	Explanation	**Wastewater**
	Plant In Service	
1	Reflect agreed upon audit adjustments (Issue 2)	($33,211)
2	Reflect appropriate plant retirement (Issue 3)	(23,335)
3	Reflect appropriate pro forma plant (Issue 4)	(153,873)
	Total	($210,419)
	Land	
	Reflect agreed upon audit adjustments (Issue 2)	$10,000
	Non-used and Useful	
1	Reflect non-used and useful adjustment to land (Issue 5)	($4,662)
2	Reflect net non-used & useful adjustment for Force Main (Issue 5)	(795,603)
	Total	($800,265)
	Accumulated Depreciation	
1	Reflect agreed upon audit adjustments (Issue 2)	$29,974
2	Reflect appropriate adjustment for retirement of WWTP (Issue 3)	297,173
3	Reflect appropriate amount for pro forma plant adjustment (Issue 4)	4,870
	Total	$332,017
	CIAC	
	Reflect appropriate amount for retirement of WWTP (Issue 3)	($258,674)
	Accumulated Amortization of CIAC	
	Reflect appropriate amount for retirement of WWTP (Issue 3)	$19,536
	Working Capital	
	To reflect the appropriate working capital allowance (Issue 6)	($16,610)

Utilities, Inc. of Sandalhaven **Schedule No. 2**
Capital Structure-Simple Average **Docket No. 150102-SU**
Test Year Ended 12/31/14

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($177,683,994)	$2,316,006	49.06%	6.64%	3.26%
2	Short-term Debt	$4,000,000	$0	$4,000,000	($3,948,533)	$51,467	1.09%	7.77%	0.08%
3	Preferred Stock	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
4	Common Equity	$182,354,550	$0	$182,354,550	($180,008,249)	$2,346,301	49.70%	10.37%	5.15%
5	Customer Deposits	$6,591	$0	$6,591	$0	$6,591	0.14%	2.00%	0.00%
6	Deferred Income Taxes	$0	$852	$852	$0	$852	0.02%	0.00%	0.00%
7	**Total Capital**	$366,361,141	$852	$366,361,993	($361,640,776)	$4,721,217	100.00%		8.50%
Per Commission									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($178,509,049)	$1,490,951	45.79%	6.64%	3.04%
9	Short-term Debt	$4,000,000	$0	$4,000,000	($3,966,868)	$33,132	1.02%	2.23%	0.02%
10	Preferred Stock	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
11	Common Equity	$182,354,550	$0	$182,354,550	($180,844,096)	$1,510,454	46.39%	10.36%	4.81%
12	Customer Deposits	$6,591	$0	$6,591	$0	$6,591	0.20%	2.00%	0.00%
13	Deferred Income Taxes	$0	$214,874	$214,874	$0	$214,874	6.60%	0.00%	0.00%
14	**Total Capital**	$366,361,141	$214,874	$366,576,015	($363,320,013)	$3,256,002	100.00%		7.88%

	LOW	HIGH
RETURN ON EQUITY	9.36%	11.36%
OVERALL RATE OF RETURN	7.41%	8.34%

Utilities, Inc. of Sandalhaven
Statement of Wastewater Operations
Test Year Ended 12/31/14

Schedule No. 3
Docket No. 150102-SU

	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	**Operating Revenues:**	$668,757	$951,993	$1,620,750	($954,628)	$666,122	$563,061 84.53%	$1,229,183
	Operating Expenses							
2	Operation & Maintenance	$581,100	$116,957	$698,057	($132,877)	$565,180	$0	$565,180
3	Depreciation	264,739	(71,698)	193,041	(23,501)	169,540	0	169,540
4	Amortization	0	10,412	10,412	(642)	9,770	0	9,770
5	Taxes Other Than Income	113,952	57,013	170,965	(62,483)	108,482	25,338	133,820
6	Income Taxes	(118,083)	265,055	146,972	(254,864)	(107,892)	202,345	94,453
7	**Total Operating Expense**	841,708	377,739	1,219,447	(474,368)	745,079	227,683	972,762
8	**Operating Income**	($172,951)	$574,254	$401,303	($480,260)	($78,957)	$335,378	$256,421
9	**Rate Base**	$3,468,701		$4,721,217		$3,256,002		$3,256,002
10	**Rate of Return**	-4.99%		8.50%		-2.42%		7.88%

	Utilities, Inc. of Sandalhaven **Adjustment to Operating Income** **Test Year Ended 12/31/14**	**Schedule No. 3-A** **Docket No. 150102-SU**
	Explanation	**Wastewater**
	Operating Revenues	
1	Remove requested final revenue increase	($939,514)
2	Reflect appropriate test year revenue	2,825
3	Reflect agreed upon audit adjustments (Issue 2)	(17,939)
	Total	($954,628)
	Operation and Maintenance Expense	
1	Reflect agreed upon audit adjustments (Issue 2)	$21,499
2	Reflect the appropriate Salaries & Wages expense (Issue 12)	(67,362)
3	Reflect the appropriate Employee Pensions & Benefits Expense (Issue 12)	(897)
4	Reflect the appropriate amount for purchased sewage treatment (Issue 13)	22,447
5	Excessive I&I adjustment (Issue 13)	(98,149)
6	Reflect the appropriate sludge hauling expense (Issue 13)	(2,490)
7	Reflect the appropriate amount of Bad Debt Expense (Issue 13)	(3,802)
8	Reflect the appropriate amount of regulatory expense – other (Issue 13)	(1,293)
9	Reflect the appropriate rate case expense (Issue 14)	(2,830)
	Total	($132,877)
	Depreciation Expense - Net	
1	Reflect agreed upon audit adjustments (Issue 2)	$18,603
2	Reflect appropriate adjustment for WWTP retirement (Issue 3)	6,160
3	Reflect depreciation expense on pro forma plant adjustment (Issue 4)	(4,870)
4	Remove net depreciation on non-U&U adjustment (Issue 5)	(43,395)
	Total	($23,501)
	Amortization-Other Expense	
	Reflect appropriate net loss related to retirement of WWTP (Issue 3)	($642)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($42,958)
2	Reflect agreed upon audit adjustments (Issue 2)	(807)
3	Reflect appropriate property taxes related to U&U adjustment (Issue 5)	(14,691)
4	Reflect appropriate payroll taxes (Issue 15)	(4,027)
	Total	($62,483)

UTILITIES, INC. OF SANDALHAVEN **SCHEDULE NO. 4**

DOCKET NO. 150102-SU **DOCKET NO. 150102-SU**

MONTHLY WASTEWATER RATES

	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	UTILITY REQUESTED RATES	COMMISSION APPROVED RATES	CHARLOTTE COUNTY 4 YEAR RATE REDUCTION	APPROVED 4 YEAR RATE REDUCTION	10 YEAR WWTP DECOMMISSIONING REDUCTION
Residential							
Base Facility Charge - All Meter Sizes	$29.34	$34.60	$70.12	$43.60	$1.39	$1.14	$0.36
Charge per 1,000 Gallons - Residential							
8,000 gallon cap	$6.59	$7.77	$15.75				
6,000 gallon cap				$16.41	$0.43	$0.43	$0.14
General Service							
Base Facility Charge by Meter Size							
5/8"X3/4"	$29.34	$34.60	$70.12	$43.60	$1.39	$1.14	$0.36
1"	$73.35	$86.50	$175.31	$109.00	$3.48	$2.86	$0.90
1-1/2"	$146.69	$173.00	$350.59	$218.00	$6.95	$5.71	$1.81
2"	$234.71	$276.80	$560.96	$348.80	$11.12	$9.14	$2.90
3"	$469.43	$553.60	$1,121.94	$697.60	$22.24	$18.28	$5.79
4"	$733.47	$865.00	$1,752.99	$1,090.00	$34.75	$28.56	$9.05
6"	$1,466.94	$1,730.00	$3,505.99	$2,180.00	$69.50	$57.12	$18.09
Charge per 1,000 Gallons - General Service	$7.92	$9.34	$18.93	$19.69	$0.52	$0.52	$0.16
Typical Residential 5/8" x 3/4" Meter Bill Comparison							
2,000 Gallons	$42.52	$50.14	$101.62	$76.42			
6,000 Gallons	$68.88	$81.22	$164.62	$142.06			
8,000 Gallons	$82.06	$96.76	$196.12	$142.06			