

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 7, 2012

TO: Andrew Maurey, Bureau Chief Bureau of Rate Filings

FROM: Avy Smith, Regulatory Analyst II ^{AS}
Stan Rieger, Engineering Specialist *SR*
Sonica Bruce, Regulatory Analyst IV *SB*

RE: Docket No. 120082-WU – Application for staff-assisted rate case in Gadsden County by Joyland Water System

COMMISSION
CLERK

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– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

DOCUMENT NUMBER-DATE

06079 SEP 10 2012

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Case Background

Joyland Water System (Joyland or Utility) is a Class C water utility located in Gadsden County. Joyland serves approximately 44 water customers. The Utility was issued Grandfather Certificate No. 559-W on March 3, 1994.¹ According to its 2011 Annual Report, gross revenues were \$13,035. The Utility's operating expenses were \$19,791.

On April 12, 2012, the Commission received Joyland's application for a staff-assisted rate case. The instant docket is the Utility's first rate case. The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give Utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed November 29, 2012, for the December 11, 2012, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

¹ See Order No. PSC-94-0234-FOF-WU, issued March 3, 1994, in Docket No. 930752-WU, In re: Application for certificate to provide water service in Gadsden County under grandfather rights by Joyland Water System.

Discussion of Issues

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

Preliminary Recommendation: Quality of service will be determined at a later date, pending review of customer comments made at the October 9, 2012 customer meeting. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a Utility by evaluating three separate components of water operations. These components are the quality of the Utility's product, the operating condition of the Utility's plants and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

Quality of Product and Operating Condition of the Plant and Facilities

Staff conducted a field investigation of the Utility's service area on June 20, 2012. The water treatment system appeared to be operating normally. DEP performed an annual compliance inspection of the Utility's water system on June 7, 2012. No deficiencies were identified. The Utility is current in all of the required chemical analyses, and the Utility has met all required standards. The quality of drinking water delivered to the customers is considered to be satisfactory by DEP. Currently, there are no enforcement activities for non-compliance with DEP rules and regulations. As indicated in its application for a staff assisted rate case, the water system is scheduled for sampling inorganics, secondary contaminants, synthetic organics, Stage-1 disinfection by-products, asbestos, and lead copper levels in 2012. The costs of these tests are discussed in Issue 6.

The Utility's Attempt to Address Customer Satisfaction

The Commission has not received any customer correspondences concerning the rate case. In addition, there are no outstanding complaints on the Commission's Complaint Tracking System. A customer meeting is scheduled to be held on October 9, 2012, in Quincy, Florida. A determination of the Utility's attempt to address customer satisfaction will be decided at a later date, pending review of customer comments made at the upcoming meeting.

Summary

Quality of service will be determined at a later date, pending review of customer comments made at the October 9, 2012 customer meeting.

Issue 2: What are the used and useful percentages of the water treatment plant and the water distribution system?

Preliminary Recommendation: The water treatment plant and distribution system should be considered 100 percent used and useful (U&U). (Rieger)

Staff Analysis: The Utility serves 44 customers (43 residential and 1 general service). The water treatment system has 1 well rated at 40 gallon per minute (gpm). Raw water is treated with liquid chlorine for disinfection purposes. This facility has no storage capacity, and fire flow is not provided. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission. In addition, the service area is essentially built out, and there is no apparent potential for expansion. Therefore, pursuant to Rule 25-30.4325, F.A.C., it is recommended that the treatment plant and distribution system be considered 100 percent U&U.

Issue 3: What is the appropriate average test year rate base for Joyland?

Preliminary Recommendation: The appropriate average test year rate base for Joyland is \$24,522. (Smith)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. Staff selected a test year ended December 31, 2011, for this rate case. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$43,992 in this account. Staff utilized Joyland's annual reports and tax returns to determine the appropriate balance for UPIS. The Utility included \$3,500 for a 1997 Toyota truck on its annual report that is owned by the Utility's owner, Ms. Lounette Joyner. Staff has removed this amount since the Utility does not own the truck. Staff recommends UPIS of \$40,492.

Non-Used and Useful Plant: As discussed in Issue 2 of this recommendation, Joyland's water treatment plant and distribution system are 100 percent U&U. Therefore, a non-U&U adjustment is not necessary.

Contributions-in-Aid-of-Construction (CIAC): Joyland did not record any CIAC in this account. The Utility stated that there is no CIAC nor has there ever been any CIAC. Further, the staff auditor was unable to determine any current CIAC applicable to the Utility. Thus, CIAC has not been imputed.

Land: Joyland recorded \$8,000 in this account. Land was not recorded in the Utility's general ledger. Therefore, staff relied upon the Gadsden County Property Appraiser's value of the land, which is \$7,150. As such, staff has reduced this account by \$850 to reflect the appropriate land value. Staff recommends land of \$7,150.

Accumulated Depreciation: Joyland recorded \$42,223 in this account for accumulated depreciation. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff has decreased this account by \$16,129 to reflect depreciation calculated in accordance with Rule 25-30,140, F.A.C. In addition, staff has decreased this account by \$662 to reflect an averaging adjustment. The aforementioned adjustments result in average accumulated depreciation of \$25,432.

Amortization of CIAC: Joyland did not record and amortization of CIAC. As stated above, the Utility did not record any CIAC, and staff has not imputed any CIAC. Therefore, no adjustment is necessary to amortization of CIAC.

Working Capital Allowance: Joyland did not record any working capital allowance in this account. Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff recommends that the one-eighth of the operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$2,312 (based on O&M expense of \$18,500).

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Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year average rate base is \$24,522. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for Joyland?

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Smith)

Staff Analysis: The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the Commission-approved leverage formula currently in effect, the appropriate ROE is 8.74 percent.² Staff recommends an ROE of 8.74 percent with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

² See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What is the appropriate amount of test year revenue in this case?

Preliminary Recommendation: The appropriate test year revenue for this Utility is \$13,061.
(Bruce)

Staff Analysis: Joyland recorded total revenue of \$13,034. Staff has annualized revenues based on test year billing determinants and existing rates and determined the Utility's test year revenue to be \$13,061. Therefore, staff has increased test year revenues by \$27. Staff recommends test year revenue of \$13,061. Test year revenue is shown on Schedule No. 3-A.

Issue 6: What is the appropriate amount of operating expense?

Preliminary Recommendation: The appropriate amount of operating expense for Joyland is \$22,240. (Smith)

Staff Analysis: Joyland recorded operating expense of \$19,791, for the test year ended December 31, 2011. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601) – Joyland recorded \$7,583 in this account for salaries and wages - employees. This amount includes the salaries and wages for two employees, Mr. Roger Joyner and Mr. Raymond McPherson. Mr. Joyner's duties and responsibilities include handling all phases of operation concerning the well and water production. Mr. McPherson is responsible for billing, receiving account payments, and making deposits. The Utility provided recent W-2 forms for support documentation of the salaries and wages for Mr. Joyner and Mr. McPherson totaling \$7,583. Staff believes this amount is reasonable based on the duties and responsibilities of the employees as well as the number of customers served. Thus, no adjustment has been made to this account. Staff recommends salaries and wages – employees expense of \$7,583.

Contractual Services – Testing (635) – Joyland recorded \$1,006 in this account for contractual services – testing. Table 6-1 below includes additional testing that will be completed in 2012:

Table 6-1
Contractual Services - Testing

Test	Frequency	Cost	Yearly Amortization
Inorganics	every 3 years	\$400	\$133
Secondary Contaminants	every 3 years	350	117
Volatile Organics	every 3 years	225	75
Synthetic Organic Contaminants	every 3 years	900	300
Stage 1 Disinfection Byproducts	every 3 years	300	<u>100</u>
Total			<u>\$725</u>

Accordingly, staff has increased this account by \$725 to reflect required testing expenses. Staff recommends contractual services – testing expense of \$1,731 (\$1,006 + \$725).

Contractual Services – Other (636) – Joyland recorded \$179 in this account, which includes monthly internet services fees. Staff has reclassified this amount from contractual services – other to miscellaneous expenses. Staff recommends contractual services – other expense of \$0.

Regulatory Commission Expense (665) – Joyland did not record any regulatory commission expenses. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$39 for postage expense, \$35 for printing expense, and \$4 for envelopes. The above results in \$78 for postage, mailing notices, and envelopes. The Utility paid a \$200 rate case

filing fee. Based on the above, staff recommends that total rate case expense is \$278, which amortized over four years is \$70.

Miscellaneous Expense (675) – Joyland recorded \$483 in this account for miscellaneous expense. As stated above, staff has reclassified \$179 to this account to reflect monthly internet service fees. Staff recommends miscellaneous expense of \$662.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in a increase of \$795. Staff's recommended O&M expense is \$18,500. O&M expenses are shown on Schedule No. 3-A.

Depreciation Expense (Net of Related Amortization of CIAC) – Joyland recorded \$398 in this account for net depreciation expense. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated depreciation is \$1,191. Therefore, staff has increased depreciation expense by \$793. Staff recommends net depreciation expense of \$1,191.

Taxes Other Than Income (TOTI) – Joyland recorded \$1,688 in this account for TOTI. Staff has reviewed Gadsden County's non-ad valorem and ad valorem tax assessment notices. Based on these notices, staff has determined the Utility recorded the appropriate property taxes of \$116. Therefore, no adjustments have been made for property taxes. Joyland recorded \$580 for payroll taxes. Based on staff's recommended salaries and wages expense, staff has calculated payroll taxes of \$1,009. Accordingly, staff has increased this account by \$429, to reflect the appropriate payroll tax. Joyland recorded \$138 for unemployment tax. Staff auditors have determined that the unemployment tax rate is 1.03 percent. Staff has multiplied the unemployment tax rate by staff's recommended salaries and wages expense of \$7,583 and determined that appropriate unemployment tax is \$78. As such, staff has reduced this account by \$60.

Joyland recorded \$604 for RAFs. Based on staff's recommended test year revenues of \$13,061, the Utility's RAFs should be \$587. Staff has decreased this account by \$16 to reflect the appropriate RAFs. As discussed in Issue 7, revenues have been increased by \$11,323 to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn the recommended return on investment for its water operations. As a result, TOTI should be increased by \$510 to reflect RAFs of 4.5 percent on the recommended incremental change in revenues. Staff recommends TOTI of \$2,550 ($\$1,688 + \$429 - \$60 - \$16 + \510).

Income Tax – The Utility did not have any income tax expense for the test year. Joyland is a sole proprietorship. The tax liability is passed on to the owners' personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Joyland's recorded test year operating expenses result in staff's recommended operating expenses of \$22,240. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$24,384. (Smith)

Staff Analysis: Joyland should be allowed an annual increase of \$11,323 (86.69 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. Staff's revenue requirement calculation is shown on Table 7-1 below:

Table 7-1

	<u>Water</u>
Adjusted Rate Base	\$24,522
Rate of Return	x .0874
Return on Rate Base	\$2,143
Adjusted O&M expense	18,500
Depreciation expense (Net)	1,191
Amortization	0
Taxes Other Than Income	2,550
Income Taxes	0
Revenue Requirement	\$24,384
Less Test Year Revenues	13,061
Annual Increase	\$11,323
Percent Increase/(Decrease)	86.69%

Issue 8: What is the appropriate rate structure for Joyland's water system?

Preliminary Recommendation: The appropriate rate structure for Joyland's residential class is a three-tier inclining block rate structure. The three-tier rate structure for monthly consumption consists of usage blocks of: a) 0-6,000 gallons; b) 6,001-10,000 gallons; and c) all usage in excess of 10,000 gallons and usage block rate factors of .62, 1.00, and 1.25, respectively. The appropriate rate structure for the non-residential class is a continuation of the base facility charge (BFC)/gallonage charge rate structure. The BFC cost recovery should be set at 31 percent. (Bruce)

Staff Analysis: Joyland's water system is very small. The Utility provides water to 43 residential customers and 1 non-residential customer. The Utility's current rate structure for the residential and non-residential classes consists of a monthly BFC/gallonage charge rate structure. This rate structure was approved by the Commission in Order No. PSC-94-0234-FOF-WU, issued March 3, 1994 when the Utility applied for grandfather certificates to operate a water facility in Gadsden County.

Water use in the area is under the jurisdiction of the North West Florida Water Management District (NFWMD or District). Over the past few years, the District has required, whenever possible, that an inclining block rate structure be implemented. However, according to the Utility's consumptive use permit (CUP), the District is not requiring any limiting conditions regarding rate structure.

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

Staff's analysis indicates that the overall average consumption for this customer base is 5,833 gallons per month and the customer base is non-seasonal. Also, staff's analysis of the billing data indicates that there is little discretionary usage for this customer base. According to the Utility owner, the service area consists of a population of some retirees and families with children. For this reason, staff recommends that the non-discretionary threshold be set at 6,000 gallons per month (4 people x 50 gallons per day per person x 30 days). Staff's preliminary rate design called for a two-tier inclining block rate structure with usage blocks of 0-10,000 gallons in the first usage block and all usage in excess of 10,000 gallons in the second usage block. Due to the diversity of the service area, staff believes that a three-tiered rate structure is necessary to achieve the appropriate rate design goals. As discussed in Issue 9, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 6,000 gallons per month. This results in a three-tier inclining block structure for monthly consumption with usage blocks of: a) 0-6,000 gallons; b) 6,000-10,000 gallons; c) all gallons above 10,000 gallons, with usage block rate factors of .62, 1.00, and 1.25, respectively.

Staff's recommended rate design for the water system is shown below on Table 8-1. Staff also presents two alternate rate structures to illustrate other recovery methodologies. The current rate structure and alternates 1 and 2 results in price increases at all consumption levels.

Table 8-1

JOYLAND WATER SYSTEM STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES				
Current Rate Structure and Rates		Recommended Rate Structure and Rates		
Monthly BFC/uniform Kgal charge		3-Tier Inclining Block Rate Structure Rate Factors .59, 1.00 and 1.25 BFC = 31%		
BFC	\$7.50	BFC		\$14.26
All kgals	\$3.00	1 st tier (no repression)	0-6 kgals	\$5.37
		2 nd tier (discretionary)	6-10 kgal	\$9.03
		3 rd tier (discretionary)	10+	\$11.29
Typical Monthly Bills (1)		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$7.50	0		\$14.26
1	\$10.50	1		\$19.63
3	\$16.50	3		\$30.37
6	\$25.50	6		\$46.48
10	\$37.50	10		\$82.60
20	\$67.50	20		\$195.50
Alternative 1		Alternative 2		
3-Tier Inclining Block Rate Structure Rate Factors .61, 1.00 and 1.25 BFC = 35%		3- Tier Inclining Block Rate Structure Rate Factors .64, 1.00 and 1.25 BFC =40%		
BFC	\$16.10	BFC		\$18.41
0-6 kgals	\$5.06	0-6 kgals		\$4.67
6-10 kgals	\$8.21	6-10 kgals		\$7.25
10+	\$10.26	10 +		\$9.06
Typical Monthly Bills		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$16.10	0		\$18.41
1	\$21.16	1		\$23.08
3	\$31.28	3		\$32.42
6	\$46.46	6		\$46.43
10	\$79.30	10		\$75.43
20	\$181.90	20		\$166.03

Staff recommends that this fixed cost allocation be set at 31 percent. Due to the magnitude of the revenue requirement increase coupled with the demographics of the service area, staff's recommended fixed cost allocation allows staff to design a rate structure that satisfies the goal of minimizing the rate impact on retirees and families with children who are already conserving. Also, staff's recommended fixed cost allocation targets the small amount of discretionary usage above 10,000 gallons.

Based on the foregoing, staff recommends that the appropriate rate structure for Joyland's residential class is a three-tier inclining block rate structure. The three-tier rate structure for monthly consumption consists of usage blocks of: a) 0-6,000 gallons; b) 6,001-10,000 gallons; and c) all usage in excess of 10,000 gallons and usage block rate factors of .62, 1.00, and 1.25, respectively. The appropriate rate structure for the non-residential class is a continuation of the base facility charge (BFC)/gallonage charge rate structure. The BFC cost recovery factor should be set at 31 percent.

Issue 9: Is a repression adjustment appropriate in this case, and, if so, what are the appropriate adjustments?

Preliminary Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year residential gallons sold should be reduced by 10.9 percent, resulting in a consumption reduction of 329,000 gallons. Total water consumption for rate setting is 2,675,000 gallons. Purchased power expense should be reduced by \$131, chemical expense should be reduced by \$12, and regulatory assessment fees (RAFs) should be reduced by \$7. The post-repression revenue requirement should be \$24,235.

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

Staff Analysis: A repression adjustment quantifies changes in consumption patterns in response to an increase in prices. Customers will typically reduce their non-essential consumption (i.e. outdoor irrigation, etc.) in response to price changes, while essential consumption (indoor uses such as cooking, cleaning, drinking, bathing, etc.) remains relatively unresponsive to price changes.

Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the overall average consumption is 5,833 gallons per month. This does not indicate a high overall average level of consumption. As mentioned earlier in Issue 8, the billing data indicates that there is very little discretionary usage for this customer base. Furthermore, in Issue 8, staff recommended that the threshold for the customer's essential usage be 6,000 gallons per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 6,000 gallons per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.³ This methodology also restricts any price changes due

³ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; and PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

to repression from being applied to non-discretionary consumption (consumption less than 6,000 gallons per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 6,000 gallons per month).

Therefore, based on this methodology, test year residential gallons sold should be reduced by 10.9 percent, resulting in a consumption reduction of 329,000 gallons. Total water consumption for rate setting is 2,675,000 gallons. Purchased power expense should be reduced by \$131, chemical expense should be reduced by \$12, and regulatory assessment fees (RAFs) should be reduced by \$7. The post-repression revenue requirement should be \$24,235.

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

Issue 10: What are the appropriate rates for Joyland?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenue of \$24,235 for water, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days after the date of the notice. (Bruce)

Staff Analysis: The recommended pre-repression revenue requirement is \$24,384. As discussed in Issue 9, staff recommends expense reductions of \$150 associated with the repression adjustment. Staff's recommended rates are designed to produce post-repression revenue of \$24,235.

In designing the rates, the BFC allocation should be set at 31 percent for both the residential and non-residential classes. As discussed in Issue 8, staff recommends that the appropriate rate structure for the residential class is a three-tier inclining block rate structure, with usage blocks for monthly consumption of: a) 0-6,000 gallons; b) 6,001-10,000; and c) all usage in excess of 10,000 gallons and usage block rate factors of .62, 1.00, and 1.25, respectively. The recommended rate structure for the non-residential class consists of a traditional monthly BFC/uniform gallonage charge rate structure. Applying these recommendations to staff's post-repression revenue requirement of \$24,235 result in the rates contained on Schedule No. 4.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days after the date of the notice.

Issue 11: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Joyland should 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 should 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. (Smith)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$74. Using Joyland's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule No. 4.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Joyland should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Joyland should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's Office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Smith)

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

Joyland should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$7,556. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, and,

- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

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

Joyland should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's Office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should the Commission approve Joyland's request to include a late payment fee of \$5.25?

Preliminary Recommendation: Yes. Joyland's request to include a late payment fee of \$5.25 should be approved. The late payment charge should be effective for services rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, (F.A.C.).

Staff Analysis: Section 367.091(6), F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates of service availability charges. The Utility's request for a late payment charge was not accompanied by a cost-justification as required by Section 367.091, F.S.

The Commission handles late payment fee requests on a case by case basis. In the Utility's application, the owner, Mrs. Lounette Joyner indicated that at least 50 percent of the customer base received late notices in the month prior to filing its SARC application. Also, she indicated that they are having a persistent problem of not having the option of charging a late payment fee for the customers that are consistently delinquent. Although the Utility did not request a specific fee or a cost analysis breakdown for a late payment charge, staff recommends that a payment fee of \$5.25 may be appropriate in this case. This late payment fee is consistent with the fee approved in the majority of the other cases previously approved by the Commission.⁴ The cost basis for the \$5.25 late payment fee is shown below.

Table 13-1

<u>Cost Basis for Late Payment Fee</u>	
\$2.25	Office personnel time to search accounts to determine that the bill has not been paid
\$2.50	Prepare, print and sort notices for mailing and transport to the post office
\$0.44	Postage
<u>\$0.05</u>	<u>Envelope and supplies</u>
<u>\$5.24</u>	

The purpose of a late payment charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

Based on the above, staff recommends that Joyland's late payment charge be approved. The charges should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C.

⁴ See Order Nos. PSC-12-0433-PAA-WS; issued August 21, 2012, in Docket No. 110141-WS, In re: Application for staff-assisted rate case in Polk County by Grenelefe Resort Utility, Inc.; PSC-11-0368-PAA-WU, issued September 1, 2011, in Docket No. 100128-WU, In re: Application for increase in water rates in Gulf County by Lighthouse Utilities Company, Inc.

Issue 14: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Joyland should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Smith)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Joyland should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

JOYLAND WATER SYSTEM TEST YEAR ENDED 12/31/11 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 120082-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$43,992	(\$3,500)	\$40,492
2. LAND & LAND RIGHTS	8,000	(850)	7,150
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(42,223)	16,791	(25,432)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,312</u>	<u>2,312</u>
8. WATER RATE BASE	<u>\$9,769</u>	<u>\$14,753</u>	<u>\$24,522</u>

JOYLAND WATER SYSTEM		SCHEDULE NO. 1-B
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
To remove non-utility truck.		<u>(\$3,500)</u>
<u>LAND AND LAND RIGHTS</u>		
To reflect appropriate utility land value.		<u>(\$850)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect test year depreciation calculated per 25-30.140 F.A.C.		\$16,129
2. To reflect averaging adjustment.		662
Total		<u>\$16,791</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.		<u>\$2,312</u>

JOYLAND WATER SYSTEM
TEST YEAR ENDED 12/31/11
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 120082-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. CAPITAL	9,769	0	9,769					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$9,769	\$0	\$9,769	\$14,753	\$24,522	100.00%	8.74%	8.74%
6. TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7. TOTAL	<u>\$9,769</u>	<u>\$0</u>	<u>\$9,769</u>	<u>\$14,753</u>	<u>\$24,522</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

JOYLAND WATER SYSTEM TEST YEAR ENDED 12/31/11 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 120082-WU		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$13,034</u>	<u>\$27</u>	<u>\$13,061</u>	<u>\$11,323</u> 86.69%	<u>\$24,384</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$17,705	\$795	\$18,500	\$0	\$18,500
3. DEPRECIATION (NET)	398	793	1,191	0	1,191
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,688	352	2,040	510	2,550
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$19,791</u>	<u>\$1,940</u>	<u>\$21,731</u>	<u>\$510</u>	<u>\$22,240</u>
8. OPERATING INCOME/(LOSS)	<u>(\$6,757)</u>		<u>(\$8,670)</u>		<u>\$2,143</u>
9. WATER RATE BASE	<u>\$9,769</u>		<u>\$24,522</u>		<u>\$24,522</u>
10. RATE OF RETURN	<u>(69.17%)</u>		<u>(35.36%)</u>		<u>8.74%</u>

JOYLAND WATER SYSTEM TEST YEAR ENDED 12/31/11 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 120082-WU
	<u>WATER</u>
OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	<u>\$27</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Contractual Services - Testing (635) To reflect required testing.	<u>\$725</u>
2. Contractual Services - Other (636) To reclassify internet fees to Account No. 675.	<u>(\$179)</u>
3. Regulatory Commission Expense (665) Amortize rate case expense over 4 years.	<u>\$70</u>
4. Miscellaneous Expense (675) To reclassify internet fees from Account No. 635	<u>\$179</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$795</u>
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$793</u>
TAXES OTHER THAN INCOME	
1. To reflect payroll tax.	\$429
2. To reflect unemployment taxes paid.	(60)
3. To reflect test year revenue RAFs.	<u>(16)</u>
Total	<u>\$352</u>

JOYLAND WATER SYSTEM		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$7,583	\$0	\$7,583
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,207	0	1,207
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	111	0	111
(620) MATERIALS AND SUPPLIES	1,168	0	1,168
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	200	0	200
(635) CONTRACTUAL SERVICES - TESTING	1,006	725	1,731
(636) CONTRACTUAL SERVICES - OTHER	179	(179)	0
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	5,768	0	5,768
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	70	70
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>483</u>	<u>179</u>	<u>662</u>
	<u>\$17,705</u>	<u>\$795</u>	<u>\$18,500</u>

JOYLAND WATER SYSTEM		SCHEDULE NO. 4	
TEST YEAR ENDED 12/31/11		DOCKET NO. 120082-WU	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
Residential and General Service			
<u>Base Facility Charge by Meter Size:</u>			
All meter sizes	\$7.50	N/A	N/A
5/8"	N/A	\$14.26	\$0.04
3/4"	N/A	\$21.39	\$0.06
1"	N/A	\$35.65	\$0.11
1-1/2"	N/A	\$71.30	\$0.21
2"	N/A	\$114.08	\$0.34
3"	N/A	\$228.16	\$0.68
4"	N/A	\$356.50	\$1.07
6"	N/A	\$713.00	\$2.13
<u>Residential Service Gallonage Charge</u>			
Per 1,000 Gallons	\$3.00	N/A	N/A
0 – 6,000 Gallons	N/A	\$5.37	\$0.02
6,001 – 10,000 Gallons	N/A	\$9.03	\$0.03
10,000+ Gallons	N/A	\$11.29	\$0.03
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$3.00	\$6.18	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$16.50	\$30.37	
5,000 Gallons	\$22.50	\$41.11	
10,000 Gallons	\$37.50	\$82.60	

PINECREST UTILITIES, LLC.

WATER TARIFF

GENERAL SERVICE

RATE SCHEDULE GS

AVAILABILITY- Available throughout the area served by the Company.
APPLICABILITY- For water service to all Customers for which no other schedule applies.
LIMITATIONS- Subject to all of the Rules and Regulations of this Tariff and General Rules and Regulations of the Commission.

BILLING PERIOD- Monthly

<u>RATE-</u>	<u>Meter Sizes:</u>	<u>Base Facility Charge</u>
	5/8" x 3/4"	14.45
	3/4"	21.68
	1"	36.13
	1 1/2"	72.26
	2"	115.61
	3"	231.22
	4"	361.28
	6"	722.55

Charge per 1,000 gallons \$ 4.35

MINIMUM CHARGE - Applicable Base Facility Charge (BFC)

TERMS OF PAYMENT - Bills are due and payable when rendered. In accordance with Rule 25-30.320, Florida Administrative Code, if a Customer is delinquent in paying the bill for water service, service may then be discontinued.

EFFECTIVE DATE - October 3, 2012

TYPE OF FILING - 2012 PRICE INDEXING

MICHAEL SMALLRIDGE
Issuing Officer

OWNER
TITLE