

**Director Miller's Motion  
Docket 06-00187**

2007 JAN 02 11:01:17

**Test Period and Attrition Period**

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Based on the reasonableness of the test period and forward looking attrition period proposed by Aqua, I move that the Authority adopt the 12-months ended December 2005 as the test period and the 12-months ended December 2007 as the forward looking attrition period in this case. Based on Company's General Ledger provided by Aqua, I also move that the Authority adopt the adjusted test period revenue and expense amounts proposed by Aqua.

**Revenues**

Based on updated information regarding actual customer levels at October 31, 2006 as provided by the Company, I move that the Authority accept a customer growth of 27 water/wastewater meters per year and adopt an additional 12 water only meters during the attrition period.

Based on this updated customer information as of October 2006, I move that the Authority adopt 2007 total water/wastewater revenue of \$74,173 at current rates for the 12-months ended 12/31/07.

Based upon applying the Company's forfeited discount ratio to the forecasted revenue at current rates, I move that the Authority adopt a forfeited discount revenue amount of \$619 at current rates for the attrition period.

My motion results in a Total Operating Revenue amount of \$74,791 at current rates for the attrition period.

**Operation and Maintenance Expenses**

I find that the 49.94% lost and unaccounted-for water experienced by the Company during the test period is imprudent and should not be included in customer rates. Therefore, I move that a 15% lost and accounted-for water level be adopted by the Authority for this rate case only. The Company should address this issue as quickly as possible. Consistent with the customer levels used to forecast Revenues, and a 15% lost and unaccounted-for water, I move that the Authority adopt a Purchased Water Expense of \$36,888 for the attrition period.

I move that the Authority accept Aqua's forecast of \$15,521 in Purchased Power Expense for the attrition period.

Based upon the documentation of its actual cost provided by the Company, I move that the Authority accept Aqua's forecasted Contractual Services Expense of \$45,548 for the attrition period.

**Based on the documentation provided by the Company, I move that the Authority accept a Miscellaneous Expense of \$2,600 for the attrition period.**

**Based on the level of contractual services for the utility and the limited management functions and time that Mr. Clausel will be required to devote to the utility, I find that an Administrative and General Expense of \$6,000 (or \$500 per month) is reasonable for the attrition period.**

**Based on the actual cost of preparing this rate case, I move that the Authority accept Aqua's forecast of \$46,250 as the cost of preparing this Rate Case and that this cost be amortized over a 3-year period (or \$15,417 per year). Additionally, I move that the Authority accept the \$1,200 annual cost of Regulatory Assistance. This results in a total Regulatory Commission Expense of \$16,617 for the attrition period.**

**Based on the treatment of service connection costs, after adjusting for the amortization of CIAC and grinder pump installation, as discussed in the Rate Base section of my motion, I move that the Authority adopt a Depreciation Expense of \$19,057 for the attrition period.**

**I move that the Authority accept Aqua's projection of Property Tax, and Other Tax. I also move that the Authority adopt a Franchise Tax and TRA Inspection Fee based on the Revenue and Rate Base forecast included in my motion. Therefore, I move that the Authority adopt a Taxes Other Than Income amount of \$3,149 at current rates for the attrition period.**

**In addition, based on the Revenue and Rate Base forecast included in my motion, I move that the Authority adopt an Excise Tax of negative \$4,588 at current rates for the attrition period.**

**My motion results in Total Operating Expenses of \$140,793 for the attrition period.**

#### **Net Operating Income**

**Based on Total Operating Revenues of \$74,791 and total Operation and Maintenance Expenses of \$140,793, I move that the appropriate Net Operating Income under current rates for Aqua is a loss of \$66,002 for the attrition period.**

#### **Rate Base**

**I move that the Authority reject the Company's practice of booking Tap Fees as additions to Rate Base by debiting Utility Plant in Service and reductions from Rate Base by crediting Contributions in Aid of Construction. Instead I move that the actual cost of service connections be added to Utility Plant in Service in the period incurred as any other plant addition.**

**I move that Aqua be directed to fund the cost of grinder pumps and their installation and book these actual costs to Utility Plant in Service. These costs will be recovered through the allowed return on Rate Base. I find that the maintenance and repair of these grinder pumps is the responsibility of**

the Company, as required in TRA Rule 1220-4-13-.06(1) for wastewater companies. Costs associated with minor maintenance and repair of these pumps shall be included in the Company's cost of service.

Based upon updated actual Utility Plant in Service balances at October 31, 2006 and forecasted additions to plant for the estimated cost of service connections and grinder pumps during the attrition period, I move that the Authority adopt \$1,038,735 as the average attrition period Utility Plant in Service balance.

Based upon the doctrine of "used and useful" first articulated in the US Supreme Court Case *Smyth v. Ames*<sup>1</sup>, I move that the Authority adopt zero as the average attrition period Construction Work in Progress balance. I further move that Aqua be allowed to transition Construction Work in Process for the Preserve to Utility Plant in Service based on a ratio of new customers added to the 650 total projected new customers. This methodology should allow the Company to earn a fair and reasonable return on plant as it becomes *used* and useful and produces revenue.

Based upon the three year amortization period proposed by the Company for its rate case expense, I move that the Authority find that the average attrition period Deferred Rate Case Expense balance is \$38,542.

I move that the Authority remove Depreciation Expense from Working Capital, since this is a non-cash expense. With this adjustment and using the Company's methodology, I move that the Authority find that the average attrition period Cash Working Capital balance is \$16,156.

Based upon updated October 2006 actual plant balances and forecasted additions to plant for the estimated cost of service connections and grinder pumps during the attrition period, I move that the Authority find that the average attrition period Accumulated Depreciation balance is \$308,430.

I move that Service Connection Charges be booked as Revenue at the tariff rate and added to Utility Plant in Service at actual cost. Under this methodology, Contributions in Aid of Construction would not be impacted by Service Connection Charges. Therefore, I move that the Company forecast be adjusted to reflect no additions to Contributions in Aid of Construction beginning in February 2007 to correspond with the timing of the decision in this matter.

Based upon no additions to Contributions in Aid of Construction beginning in February 2007, I move that the Authority find that the average attrition period Contributions in Aid of Construction balance is \$305,652.

My motion results in a forecasted average attrition period Rate Base of \$479,350.

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<sup>1</sup> 169 U. S. 466, 544 (1898)

### **Rate of Return**

**Based upon information provided by the Company, I move that the Authority accept a capital structure for Aqua consisting of 100% equity. Similar to the methodology utilized by the Florida Public Service Commission, I move that the equity cost for Aqua Utilities be set using the CAPM and DCF model for a representative group of natural gas distribution utilities. Therefore, I move that the Authority adopt a Rate of Return of 8.77% for Aqua.**

### **Revenue Deficiency**

**My motions for Revenue, Expenses, Rate Base and Rate of Return result in a Revenue Requirement of \$114,596 for the 2007 attrition year.**

### **Rate Design**

**To address this Revenue Deficiency of \$114,596, I move the following:**

- 1. That Service Connection Charges be treated as Revenue for Aqua, resulting in projected Service Connection Revenue of \$61,000. Therefore, the annual recurring revenue from water/wastewater sales is projected to be \$128,277.**
- 2. That the Company book Service Connection Charges (Tap Charges) at the tariff rate as Revenue in a separate identifiable account in the period received.**
- 3. That the Authority reject the proposed Reconnection Charge of \$400 and set the rate for Reconnection Charge for seasonal disconnections at \$60 for water only meters and \$120 for water/wastewater customer meters to cover five (5) months of the base rates. I find that the Company's assumption that five months is the typical length of time for seasonal disconnects is reasonable.**
- 4. That the Reconnection Charge for non-payment of bill remain at \$15.**
- 5. That the proposed returned check charge of \$20 be accepted.**
- 6. That the proposed forfeited discount rate of 5% be accepted.**
- 7. That the proposed elimination of the security deposit be accepted.**
- 8. That the Authority adopt the rates found on Exhibit 1, attached to this motion.**

### **Tariff Issues**

**I move that Aqua be instructed to immediately re-file TRA #1, which is a tariff page listing the rates, to reflect the Authority's decision in this case, so that the new rates take effect as soon as possible.**

**I move that the remainder of the proposed tariff be denied, which is TRA #2 and Aqua be instructed to work with Staff to develop a proper and consistent tariff that complies with all federal, state and local laws and all TRA Rules and decisions in this case.**

### **Other Issues**

**Finally, I am deeply concerned about the amount of rate case expense that a few hundred customers are burdened with. In an effort to minimize these expenses in the future, I move that Aqua may at anytime it desires request that the Chairman of the Authority ask the Chief of the Utilities Division to designate a Staff member to informally discuss rate issues, but no later than such time as the Company has 500 customers. This procedure would allow the Company to adjust rates without incurring additional rate case costs.**

**I find that Aqua has violated TRA Rule 1220-4-1-.01 that requires the Company to file with the Authority information regarding proposed capital additions. I move, however, that the Authority assess no monetary penalty for the violation, since my motion disallows Construction Work in Process as part of Rate Base, upon which the Company proposed to earn a return. Therefore, the omission had no effect on customers' rates. I further move that the Authority direct the Company to file the information regarding capital additions in accordance with TRA Rule 1220-4-1-.01 for 2007.**

## Exhibit 1

### Rate Design to Recover the Revenue Deficiency of \$114,596.

#### Monthly Water Service:

First 1,000 gallons per month	\$12.00
Monthly usage in excess of 1,000 gallons (Applied pro rata)	\$2.89 per 1,000 gallons

#### Monthly Wastewater Service:

First 1,000 gallons per month	\$12.00
Monthly usage in excess of 1,000 gallons (Applied pro rata)	\$2.89 per 1,000 gallons

#### Service Connection Charge:

Water	\$1,000
Wastewater	\$1,000

#### Reconnects due to Seasonal Disconnects:

Water	\$60
Wastewater	\$60

#### Reconnects due to Non-Payment of Bill:

Water	\$15
Wastewater	\$15